

**Consolidated Management Report and
Financial Statements
31 December 2004**

SONAECON, S.G.P.S., S.A.

Message from Paulo Azevedo – CEO of Sonaecom

Achieving positive Net Results was an important milestone in our history. Last year was also important as we devoted significant time to preparing the future of our Group. As in the previous two years, a great deal of effort was put into improving our cost base through integration of structures, process improvement and shifting traffic to our network.

In parallel to this ongoing work, we significantly increased time and investment dedicated to growth projects. New product offerings in the telecom division included the launch of our UMTS service, the fixed ultra broadband and voice through ULL offer and Optimus Home, our fixed-to-mobile substitution product. We believe that we were able to match UMTS offers of our competitors, whilst optimizing Capital Expenditure. In the other remaining offers we have far surpassed our competition in terms of customer value and/or technology deployed.

Network investment was stepped up and concentrated on extending our capacity and capillarity in particular through the deployment of our UMTS radio network and direct access and transmission over the copper local loop. At the end of 2004, Sonaecom had achieved 30% UMTS population coverage and was operating SHDSL, ADSL and landline voice services out of more than 60 central offices covering 25% of all local accesses in Portugal.

Of lesser visibility and short term impact but fundamental to our long term strategy, were the projects preparing convergence of our networks and systems and the research and development work on future positioning of our telecommunication brands and their relative role within our portfolio.

Our efforts over the last 3 years to improve our cost structure have been rewarded. In 2004, we delivered a 38% increase in Operating Profits (EBITDA) to 201 million euros, positive Net Results for the first time of 18 million euros, FCF increased by 80% in 2004 to 62 million euros compared to 35 million euros in 2003 and we were able to reduce Consolidated Net Debt by 19% to 256 million euros. Return to our shareholders, measured by consolidated ROE, increased to 7% from previous negative returns.

In spite of our continued efforts, the degree of success of re-launching growth in the mobile and broadband segments and the long-term future of the company is still dependent on the establishment of conditions that will ensure fair competition in the Portuguese telecommunications market. The dominant market position of Portugal Telecom in all access technologies (copper, cable, wireless and satellite) and in critical content (football and film rights) together with its power of influence, have left the national regulatory authorities either overwhelmed or lacking the legal mechanisms to enforce effective and structural solutions.

Sonaecom has addressed the incumbent's dominance of access technologies with the European Commission. We strongly believe that a fundamental structural decision requiring separation of networks will eventually be taken by the European Commission, if the current shareholders and management of the incumbent do not radically change their strategy and practices of their own accord.

There are, however, also fundamental short and medium-term regulatory competitive issues, which need to be addressed urgently and which are of the exclusive competency of the national authorities and are independent of the structural issues. These are:

- Mobile network effect created by a combination of factors: Europe's largest difference between on-net and off-net prices – on-net retail prices are below the cost of a single wholesale termination or origination; and high mobile-to-mobile termination rates.
- Ineffective and expensive ULL processes and poor service levels currently leading to real process times of between 30 and 120 days.
- Persistent abuse of dominant market position and unfair competitive practices.

Notwithstanding the above, I am pleased to be able to report that after a long period of uncertainty during which the service was suspended, ANACOM finally approved Optimus Home, approximately 90 days after the launch of the service. We genuinely believe that the decision to permit us to re-launch Optimus Home is very good news for the consumer and for competition as a whole in the Portuguese Telecommunications market. Optimus Home gives customers who only require a voice connection at home, the possibility to phone at current fixed voice tariffs, without paying a monthly fee, while using a fixed number. Sonaecom services customers over NOVIS fixed network and Optimus GSM local access radio network. In its assessment of Optimus Home, the Portuguese Competition Authority considered that this product offering should be seen as "an alternative to the traditional fixed line service from the point of view of the consumer".

Although we are satisfied with the decision that lifts the suspension on Optimus Home, we are concerned by the lengthy approval process adopted by ANACOM that has kept an innovative and competitive product that was well received by the consumer and that brought clear consumer benefits, suspended for such a long period of time.

Our Media and S&SI divisions have progressed very well in turnover, profitability and cash flow generation and have shown their ability to compete with very distinctive and targeted strategies.

I believe our team has yet again shown itself to be more innovative and creative than our competition and that despite all constraints, it can make a decisive contribution to the development of a fundamental segment of our economy.

What we are today was achieved through the commitment, energy, perseverance and talent of our team and the support and advice of our directors, partners and shareholders.

It takes a special team to thrive in difficult and biased conditions – to all of you my gratitude and admiration.

Paulo Azevedo, CEO – 25 February 2005

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I. MANAGEMENT AND CORPORATE GOVERNANCE REPORTS

1. Overview

1.1. Key Operating Highlights in 2004

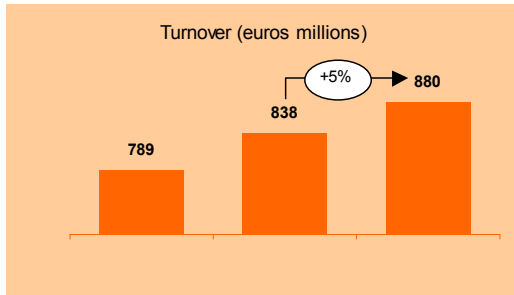
Operational Events

January	<ul style="list-style-type: none"> Novis launched 1024k ADSL light for 99 euros, directed to the SoHo and SME market; Clix suspends ADSL services for new customers due to unsustainable economics of the PT wholesale offer; Motorola is announced as supplier of Optimus' UMTS network in northern Portugal.
March	<ul style="list-style-type: none"> Novis and Clix join efforts to introduce the best offer in terms of ADSL Internet access and fixed phone line simultaneously – "Revolução das Flores". Optimus Zone launches exclusive SonyEricsson T630 handsets. WeDo launches Integrated Collections Solution (ICS) version 4.0
April	<ul style="list-style-type: none"> Acquisition of KPNQwest Portugal by Novis
May	<ul style="list-style-type: none"> WeDo and HP announce partnership to develop telecom solutions for Latin America Novis announces flat rates for voice service in the residential market
July	<ul style="list-style-type: none"> UMTS commercial launch
August	<ul style="list-style-type: none"> Refinancing of Optimus bank debt with a 450 million euros corporate facility
September	<ul style="list-style-type: none"> Launch of Novis Mega ADSL offer to SMEs
October	<ul style="list-style-type: none"> BRISA purchases RAID, WeDo's software for revenue assurance
November	<ul style="list-style-type: none"> Launch of Optimus Home Launch of Clix Mega ADSL 2 / 4 / 8, the most competitive broadband offer in the market.
December	<ul style="list-style-type: none"> ANACOM issues draft decision on Optimus Home Mobile Termination rates set in ANACOM draft decision Mainroad wins contract to lead the project "Casa da Música"

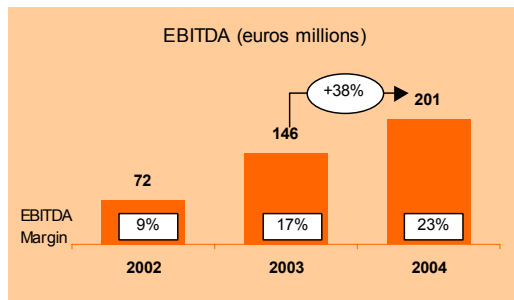
Key Consolidated Financial and Operating Highlights

(euros millions)	2002	2003	2004	2004 / 2003	2003 / 2002
Turnover	789	838	880	5%	6%
EBITDA	72	146	201	38%	103%
Net Results*	-99	-20	39	298%	80%
FCF	-55	35	62	80%	163%
Net Debt	374	316	256	-19%	-15%

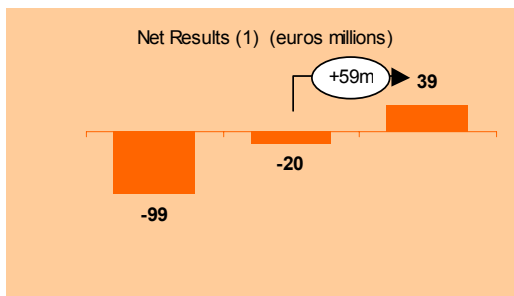
* Net Results Before Minority Interests in accordance with IFRS



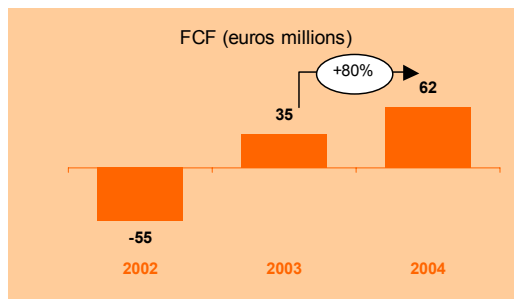
- Turnover increased by 5% to 880 million euros in 2004.



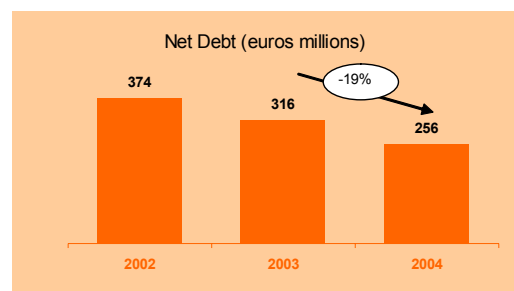
- EBITDA grew by 38% to 201 million euros;
- EBITDA Margin as a percentage of Turnover was 23% in 2004 compared with 17% in 2003.



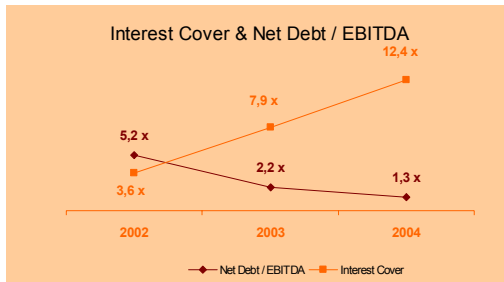
- For the first time, Sonaecom recorded positive Net Results of 39 million euros for the full year. This compares to Net Losses of 20 million euros in 2003.



- FCF reached 62 million euros, up 80% compared with the previous year;
- FCF Margin on Turnover was 7% compared with 4% in 2003.



- Net Debt fell by 19% to 256 million euros;



- Debt:Equity at end 2004 was 41:59 compared with 54:46 at end of 2003;
- Net Debt:EBITDA in 2004 improved to 1.3x, from 2.2x in 2003;
- Interest cover improved from 7.9x in 2003 to 12.4x in 2004.

A detailed review of our Consolidated 2004 Results and operating performance is provided in Section 2 below.

1.2. Our Mission and Values

Underlying our operating and financial achievements has been the keen development and communication throughout Sonaecom of our Group Mission, Values and Culture. This is clearly portrayed in the united management culture prevalent today across Sonaecom companies. All employees are linked through an integrated Group website that actively promotes Group values, initiatives and events. Today there is a clear sense of belonging and involvement at Sonaecom, which is a key driver for maximizing the value potential of being an integrated Group.



MISSION

Sonaecom's ambition is to be the best communication services provider in Portugal and the company of choice for exceptional people to work and discover their full potential.

Sonaecom relentlessly pursues the creation of innovative products, services and solutions that fulfil the needs of its markets and generate superior economic value.

VALUES

Ambition

Be the best in Portugal.
Face all challenges.
Exceed our limits.
Be relentless in pursuit of our goals.
Believe in our skills and competences.

Innovation

Develop new ways of communicating: simpler, more effective and profitable.
Exploit our renowned technological expertise and surpass achievements to date.
Break away from conventions, surprise the market.

Social Responsibility

Commit to our community, following good environmental practices and being socially responsible.
Care for the future.

Customer Centric

Gain a better understanding of our customers, to better satisfy their needs.

Add value to the customer by developing quality and tailor-made products, services and solutions.

Know what the client wants and is thinking.

People Oriented

Be the company of choice for the best professionals to discover their full potential.

Loyalty, professionalism and honesty are key values for our teams.

Be transparent and respect the market and social ethics.

Think and act honestly.

Value Driven

Search for maximum profitability to fund our growth and fulfil our mission.

Assure a superior return for our shareholders.

Strive for solid financials and economic stability.

1.3. Strength in our Brands

The strength of our competitive advantage lies in the strength of our brands. Our ability to increase our market position and reinforce our brand positioning with our consumers depends on our continuous efforts to know and understand who our consumers are and how they are segmented and adapt our products and services accordingly.

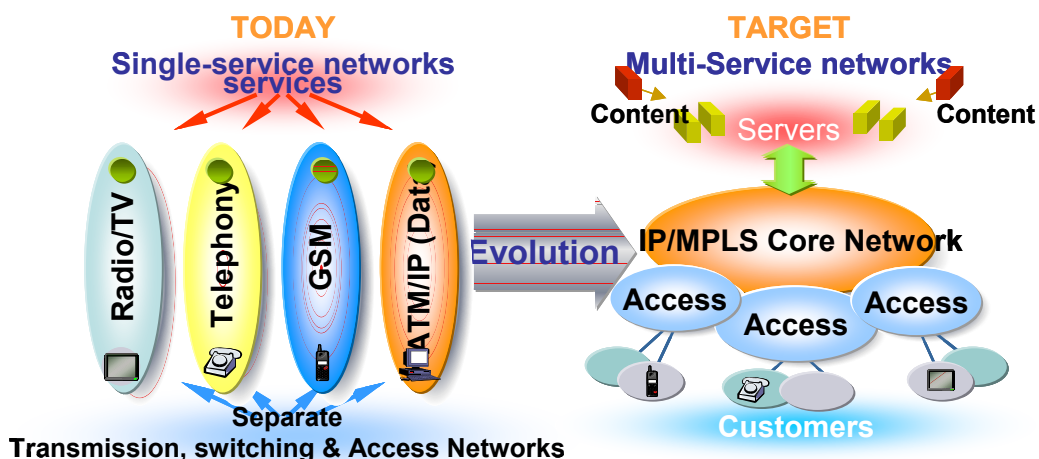
Significant time was taken and investment made during 2004 to study how our various telecom brands are perceived by our specific consumer segments and in evaluating their relative position within the Sonaecom portfolio. A leading international consultancy firm, Roland Berger, was brought in to help us in this evaluation.

We have identified a number of values that are common to all our brands and others that are exclusive to the positioning of each individually. These findings will be the platform for developing our brand positioning and marketing activities in the future.

1.4. Seamless Integrated Network

The Sonaecom Network is a critical asset for all our telecoms businesses as it supports the operations of Optimus, Novis and Clix. The Sonaecom Network underwent significant developments during the year in terms of:

- ▣ Capillarity and coverage;
- ▣ Capacity and flexibility;
- ▣ Innovation and new services.



The launch of UMTS in 2004 was a major development for the core network with Optimus now operating 2 networks in parallel. In July, the UMTS network went "live" with the launch of video calls, broadband Internet and new content over the "Optimus Zone 3G" portal. By the end of the year, UMTS coverage was 30% of the population, covering both Oporto and Lisbon and all the main district capitals.

The capillarity of Sonaecom's transmission network was extended by unbundling 61 main centrals offices¹ thus reaching 990 thousand copper local loops, circa 25% of all local accesses in Portugal. We are now operating direct connections for most of our GSM and UMTS network and when direct connections are not possible, we extend our network to the closest possible point and then lease lines. As a consequence we have achieved impressive reductions in the costs of operating our mobile networks.

To speed up the migration to the Sonaecom Network of leased lines and circuits that both Optimus and KPNQwest Portugal were previously leasing from PT, DWDM was deployed by Novis over the main stretches of backbone and international connections, thus increasing transmission capacity. Gigabit Ethernet was also deployed in some parts of the backbone network, a technology appropriate for IP based services, Internet access and TV over IP.

The copper local access network was extended to support services for the business and residential segments, by deploying ADSL 2+ technology in all unbundled central offices in the last quarter of the year. As a result, Sonaecom's brands are now in a position to offer extremely innovative and competitive products (Clix and Novis launched 8MB offers) and the investment required is modular and proportionate to growth in customer numbers.

Network Highlights	End 2004
Backbone fibre	5,525 kms
Metropolitan Area Networks fibre ducts / pipes	522 kms
North	163 kms
South	359 kms
Number of buildings / sites with fibre connections	206
Central Offices with SHDSL and Interconnection Circuits	61
Central Offices with Unbundled Local Loop services (ADSL + Voice)	23

IP/MPLS deployment was extended for fixed services and a more structured approach to VoIP was prepared over the voice switching network with the introduction of new IP switches (softswitching), due to go live in early 2005.

To continue improving the quality of service of the GSM/GPRS network, 88 new sites were deployed in 2004. By the end of 2004, Optimus had 2.208 GSM sites (BTS) and 484 UMTS sites (NodeBs).

The Sonaecom Network is being continuously improved to support new technologies and services such as the new mobile services being offered over both GSM/GPRS and UMTS, new fixed services based on recent FWA technologies, IP based services such as TV and convergent solutions, an example being "Optimus Home".

The strategic development of the Group's transmission and voice switching network and technological choices have been the object of extensive economic and technical review. Thus, to support transmission requirements, both in terms of the backbone and distribution network, investments have focused on xWDM (Wave Division Multiplexing) and xGigabit Ethernet, in alternative to SDH (Synchronous Digital Hierarchy). "Softswitching" was chosen as the best technological platform for the increasing requirements of fixed voice

¹ Included in the ORALL (Local Loop Access Reference Offer)

switching to support traditional offers and new services developed i.e: use of VoIP which allows increased product flexibility and increased capacity per unit of cost, in comparison with traditional switching platforms. The strategic review of the technological roadmap has already led to an increase in the capacity of the transmission network and to installation of the first "softswitch" at Novis in Lisbon.

In terms of technological partnerships, Motorola's position as a supplier for UMTS was reinforced and in terms of our optic fibre and local access network, a promising relationship has been initiated with the Chinese supplier, Huawei Technologies.

1.5. An integrated organization and management team

The way we are organized reflects our integrated management approach. The Executive Committee is composed of the Group CEO, the CEOs of the main business divisions, the Group CFO and the Group's CLRO (Chief Legal and Regulatory Officer).

Sonaecom Executive Committee 2004



In practice, the fixed telecom and Internet businesses (Novis and Clix) are being managed by a single executive team and the organization has been structured to reflect the three core market segments: Home (residential), Business and Wholesale. In addition to the Sonaecom Executive Committee and the Executive Committee of the Operating Companies, Sonaecom has created an executive team composed of directors of all the telecom companies, the main objective of which is to ensure Sonaecom is fully exploring Group potential to its maximum, in terms of new business opportunities, product and service developments and synergies.

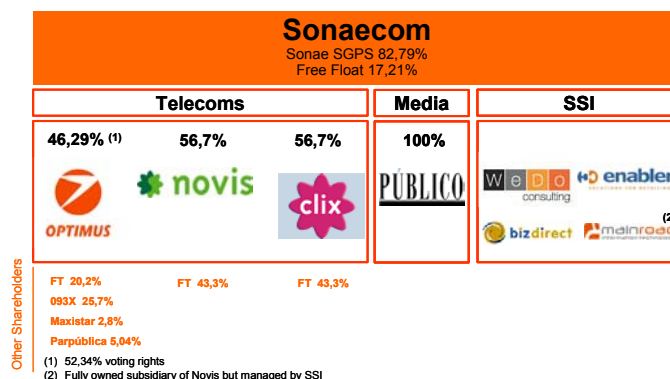
Subsequent to year-end 2004, the Management Team has undergone changes, explained in more detail below in section 2.4.1., Subsequent Events. These management changes envisage the departure of António Casanova, who will be taking up a new role as Executive Board Member of Sonae Imobiliária in April 2005.

Luis Filipe Reis will take on responsibility for all the Telecom businesses, including Optimus and the following changes will occur at the operating companies:

- Miguel Almeida, currently Executive Director at Optimus, will become COO of the mobile business, reporting to Mr. Luis Reis;
- Pedro Carlos, currently Executive Director at Novis, will remain as COO of the fixed business, reporting to Mr. Luis Reis.

The reorganization of the executive management team at Sonaecom further enhances the strategic intent of developing an integrated management team for all the Telecom assets, leveraging synergies and integrated business opportunities wherever possible.

Shareholder Structure



France Telecom is a core shareholder and active strategic partner in all our Telecom assets, having participated as a shareholder at launch of the respective businesses.

Sonae SGPS owns approximately 82% of Sonaecom's share capital and the remaining circa 18% represents public float, which is traded on Euronext. Sonaecom's free-float is known to be held by a number of reference domestic and international institutional investors and by a smaller base of retail investors.

1.6. Regulatory Environment

Of critical importance to the success of our strategy in the telecoms and media arena is the existence of a dynamic and fair competitive environment. We dedicate significant time and effort to addressing key regulatory issues that hinder development of such an environment, both at the level of the National Regulatory Authority – ANACOM and the Competition Authority in Portugal and with the European Commission in Brussels.

Of the main regulatory developments during 2004, and those anticipated for 2005, we highlight the following:

General Nature

- ▣ Sector specific legislation changed in 2004 as a result of transposition of 5 EU Directives. The Portuguese Parliament enacted law nº 5/2004, February 10. Under this law, ANACOM was obliged to trigger the review of almost all obligations imposed on the incumbent and to consider the imposition of remedies to other operators;
- ▣ Mid 2004, Professor Pedro Duarte Neves replaced Mr Alvaro Dâmaso as Chairman of the Board of ANACOM, and Mrs Teresa Maury later replaced Professor Maria do Carmo Seabra as Member of the Board.

Mobile

- ▣ Network sharing rules were enhanced and 3G national roaming was formally authorized. As a result, ANACOM reduced operator coverage obligations with own infrastructure and authorized that the remaining mandatory coverage be achieved through either network sharing or national roaming;
- ▣ Sonaecom launched a fixed-mobile convergent service in 4Q04 (Optimus Home) that uses a wholesale mobile access service provided by Optimus. ANACOM issued a draft decision authorizing the offer in December 2004



and a final decision was pending at the date of this report;

- ▣ ANACOM issued a draft decision in December for progressive quarterly reductions of mobile termination rates, ending in October 2006, with fixed to mobile and mobile to mobile rates converging to the same level of 11,6 eurocents;
- ▣ GSM spectrum fees declined by 10% in 2004.



Fixed

- ▣ ANACOM reviewed the conditions of access and interconnection to the incumbent's ADSL network in 4Q04, reducing prices and enforcing the availability of ADSL interconnection at a regional level (bitstream access) which comprises 28 interconnection points in addition to the existing 2 national interconnection points (wholesale access);
- ▣ ANACOM initiated a review of ULL (unbundling of the local loop) conditions, the results of which are expected in early 2005, in particular a revision of the set-up fees and operational conditions;
- ▣ Sonaecom initiated a case with the European Commission which addresses the overwhelming dominance of the Portugal Telecom Group in most of the relevant markets in which it operates;
- ▣ Issuance of a statement of objections against the Portugal Telecom Group by the European Commission.

Notwithstanding the above, it should be noted that there are some fundamental short and medium term regulatory and competitive issues which need to be addressed urgently, if Portugal is to get closer to European Union best practices:

- ▣ Mobile network effect created by the combination of effects: Europe's largest difference between on-net and off-net prices – on-net retail prices are below the cost of a single wholesale termination or origination; and high mobile-to-mobile termination rates;
- ▣ Ineffective and expensive ULL processes and poor service levels currently leading to effective process times between 30 and 120 days.
- ▣ Persistent abuse of dominant market positions and unfair competitive practices.

1.7. Looking Forward

2005 will be more challenging in terms of top-line and margin growth particularly given the impact of the gradual cuts in mobile termination rates and the transition period that our fixed business is going through, shifting more and more to direct access solutions and away from indirect access solutions which are less attractive from a net present value perspective.

During 2005, we will increase the pace of investment in our brands and our expenditure on marketing and sales in order to promote fixed-mobile substitution and to maximize the benefits presented by the anticipated pick-up in broadband related activity. We will continue to optimise the Sonaecom Network and to deploy our UMTS coverage to support our Telecom businesses and to reduce our reliance on the incumbent's network. We will continue to evolve towards a more integrated management and organisational structure for our Telecom business.

The pace of future growth will be dependent on take-up of fixed to mobile convergent solutions, and of mobile data which to date has been slow, the evolution of broadband business and on our eventual interest in rolling out a triple play offer.

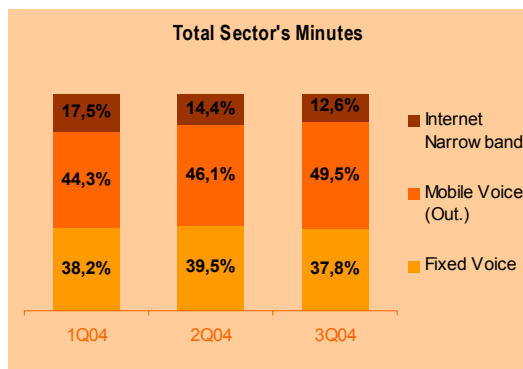
At Público, we will be implementing measures to increase circulation and will continue our efforts to lead the market in the sale of Associated Products with innovative collections leveraging off the Público brand. As regards SSI, we expect to continue to show steady organic growth particularly in international markets.

2. Director's Report

2.1. Sector Review

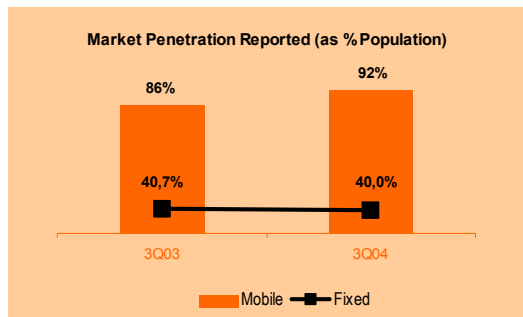
According to the European Information Technology Observatory (EITO), the value of the European Telecoms industry in 2004 is estimated to be 277 billion euros, representing an increase of 4.6% in comparison with 2003, above the average EU GDP growth rate of 1.8%². The main drivers for growth were fixed data services and mobile services, growing 11.5% and 7% respectively year-on-year.

The value of the Portuguese telecommunications market is estimated to be 7.4 billion euros in 2004, of which 45% was related to mobile services, 32% to fixed voice, 19% to Internet and data services and the remainder to cable TV services.



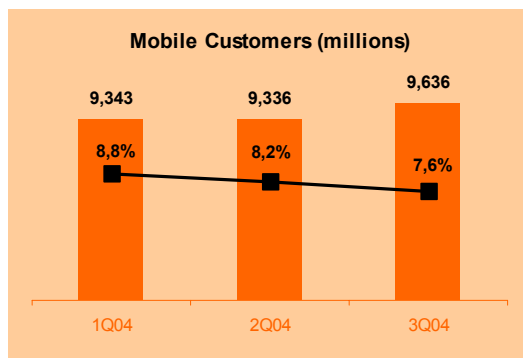
In 2004 the telecommunications sector generated 5.7 billion minutes per quarter representing a decrease of 5.3% compared with the previous year. This decrease was primarily driven by Internet narrowband (due to the cannibalisation by ADSL offers). With the decrease of Internet traffic and stable fixed voice traffic, mobile voice traffic (as is the case in revenues) accounts for the majority of the sector's minutes – 49.5% in 3Q04.

Source: ANACOM



Mobile penetration reported by ANACOM in Portugal was 92% at the end of 3Q04 and remained above the European average of 84%. In contrast, fixed line penetration has reduced marginally, and is below European average. However, fixed line traffic has continued to decline due to fixed-to-mobile substitution.

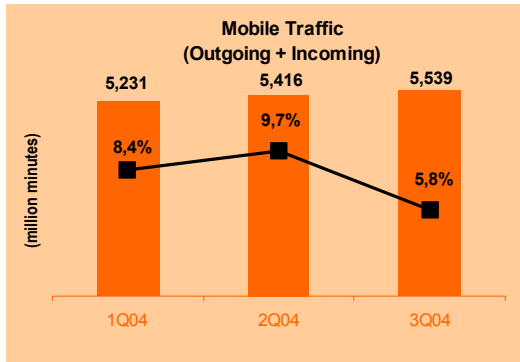
Source: ANACOM



During the first 9 months of 2004, total mobile subscribers grew by circa 8%, mostly driven by growth in pre-paid subscribers, which represented 79% of total customers at the end of 3Q04. Most of this growth came in the third quarter and coincided with launch of the new 3G offers and with marketing campaigns directed at young user segments, corporate mobile usage and customer loyalty plans.

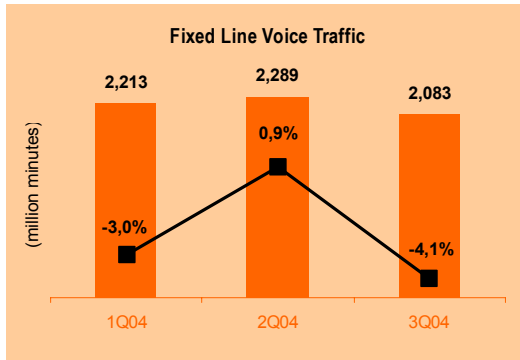
Source: ANACOM

² According to EOCD



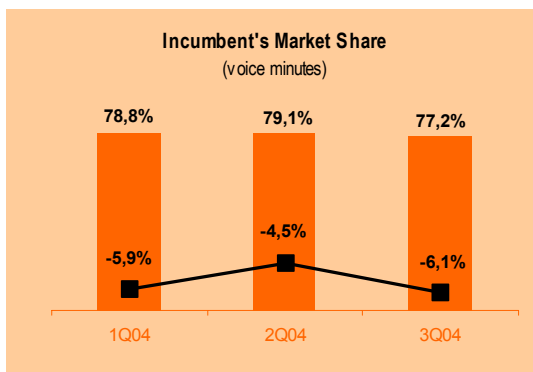
Outgoing and incoming mobile termination traffic grew 7.8% and 8% respectively in the 9 months to end September 2004. SMS usage continues to grow above voice traffic, showing a 10% growth in the 9 months to end September 2004 compared with the same period in 2003.

Source: ANACOM



In 3Q04, alternative fixed line operators ("Alternative Operators") accounted for 17.2% of total Portuguese fixed line traffic (in minutes), an increase of 5.3 percentage points compared with 3Q03. Alternative Operators gained circa 5.0 percentage points in market share at the end of 3Q04, compared with 3Q03, both in terms of total voice minutes and outgoing calls.

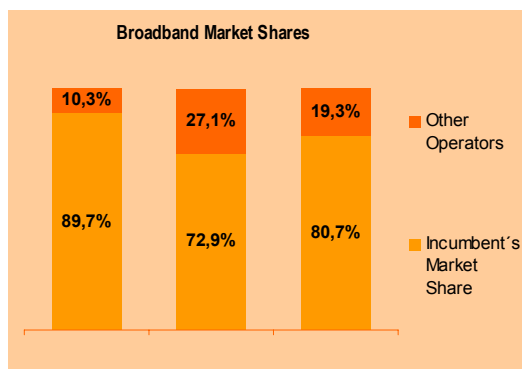
Source: ANACOM



Five years after the liberalization of the Portuguese telecommunications market, the incumbent still has a dominant market position. At the end of 3Q04, the incumbent controlled 93.7% of total accesses and 87% of fixed call revenues. The nine Alternative Operators currently competing in the market hold together a 21.6% market share of national calls and a 22.2% share of international calls.

Source: ANACOM and EU

As mentioned above, narrowband traffic continued to record significant year-on-year declines. In the first 9 months of 2004, total narrowband traffic declined by 36% to 2.5 billion minutes due to the rapid migration of Internet users to broadband solutions, namely ADSL and cable modems.



Total broadband customers at the end of 3Q04 were 746 thousand, of which 53.3% were cable modem users and the remaining 46.7% used ADSL. Broadband penetration at the end of 3Q04 was 7.1%, which compares to 6.3% at the end of the previous quarter. In 3Q04, the incumbent showed a market share of circa 89% of all ADSL accesses and 73% of all Cable modem accesses.

Source: ANACOM and 3Q04 PT Management Report

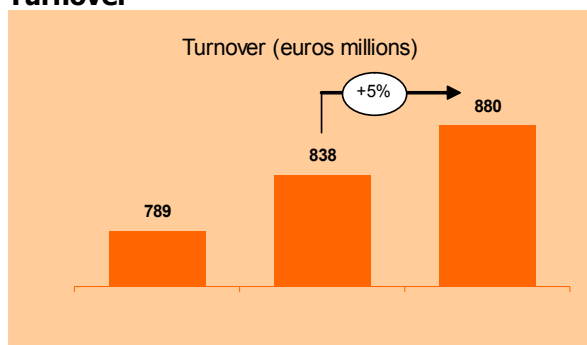
2.2. Consolidated Financial Review

Sonaecom's consolidated accounts and those of its operating subsidiaries are presented under International Financial Reporting Standards (IFRS). Sonaecom and its subsidiaries have reported their results under IFRS since January 2003.

Significant progress was made during 2004; we delivered top-line growth and significant improvement in profitability and FCF generation and further improvements to our capital structure.

- Turnover grew by 5% to 880 million euros in 2004;
- EBITDA was 201 million euros in 2004, up 38% against 2003. EBITDA Margin improved to 23% from 17% in 2003;
- Net Results³ were positive for the first time, by 39 million euros, compared to a Net Loss of 20 million euros in 2003;
- FCF increased 80% in 2004 to 62 million euros compared to 35 million euros in 2003;
- Nominal Net Debt⁴ reduced by 18% to 275 million euros;
- Interest Cover and Nominal Net Debt⁴ to EBITDA improved in 2004 to 12.4x and 1.4x from 7.9x and 2.3x respectively in 2003.

Turnover



The primary drivers of Turnover growth in 2004 (on a stand-alone basis) were:

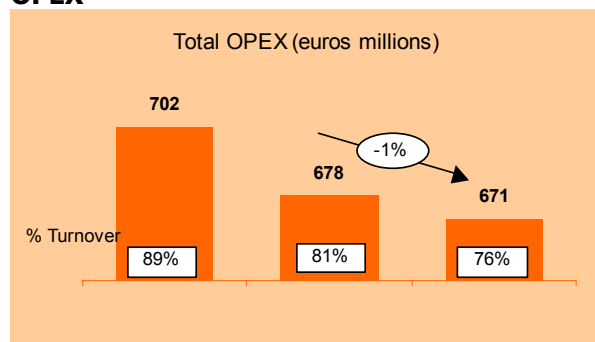
- Increase of 4% in Customer Revenues and of 14% in Roaming Revenues at Optimus.
- Growth in Novis' wholesale business and the contribution from KPNQwest Portugal acquired in April.
- Top-line growth at SSI of 8% that was driven mostly by new contracts won at international subsidiaries, in particular at Enabler.

The deterioration of the Internet narrowband business and the suspension from January to November of Clix' ADSL offer, had a negative impact on revenues as did the change in business focus at Novis to direct access solutions that have a sounder NPV profile than the high volume indirect access solutions.

³ Net Results before Minority Interests in accordance with IFRS.

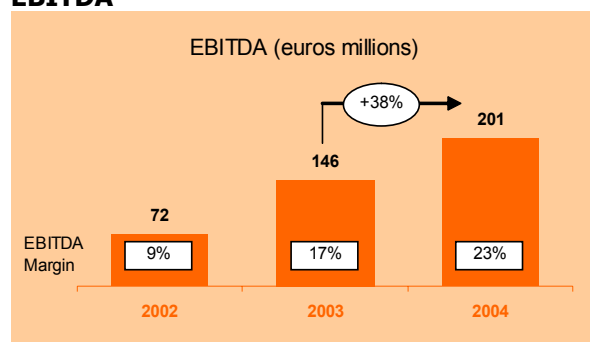
⁴ Nominal Net Debt i.e: without the impact of IAS 39. Under IAS 39, bank debt is shown in the Balance Sheet net of aggregate up-front costs associated with setting up financing facilities. These up-front costs were deferred and written-back as finance costs over the life of each facility.

OPEX



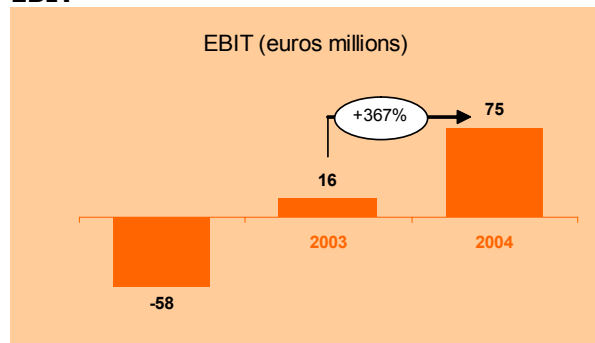
In 2004, we were successful in containing operating costs throughout the Sonaecom Group while achieving intra-group cost efficiencies. In particular we achieved economies of scale and synergies in the management of the Sonaecom Network and increased our self-sufficiency in the provision of transmission and capacity circuits. The acquisition of KPNQwest Portugal contributed an additional 5 million euros to consolidated operating expenses in 2004.

EBITDA



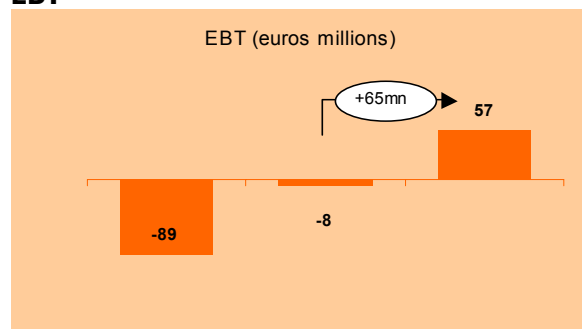
The significant improvement in EBITDA was the result of increased service margin, continued focus on cost contention and significantly lower level of bad debts. EBITDA grew by 38% to 201 million euros. In 2004, we achieved a consolidated EBITDA margin of 23%, up from 17% in 2003. The continuous focus on working capital management has led to a significant reduction of bad debt risk and thus lower provisions.

EBIT



EBIT grew almost five-fold to 75 million euros in 2004 compared to 16 million euros in 2003. Depreciation and Amortization recorded a slight decline in 2004 to 125 million euros, down from 129 million euros in 2003. This included the impact of the new IFRS rules that require Goodwill to be booked as an asset but without the need for amortization (although subject to annual impairment tests), and the impact of full amortization of certain technological assets.

EBT

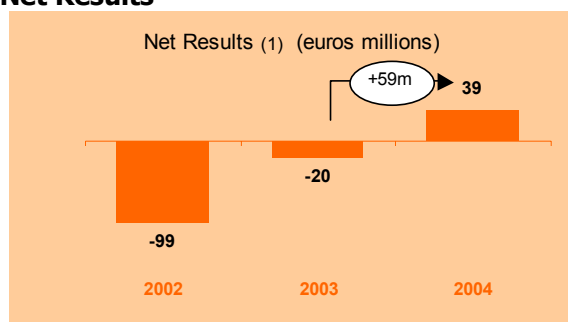


Driven by the improvement in operating performance and by a reduction in Net Financial Costs, EBT was 57 million euros in 2004, up from losses of 8 million euros in 2003. Net Financial Results improved in 2004 due to a combination of not having made provisions for financial investments in 2004, lower average Gross Debt and due to the significant reduction in interest spread achieved from August 2004 when Optimus refinanced its term debt (see section on financing below). Total interest expense fell to 16 million in 2004 from 18 million euros in 2003.

Taxes

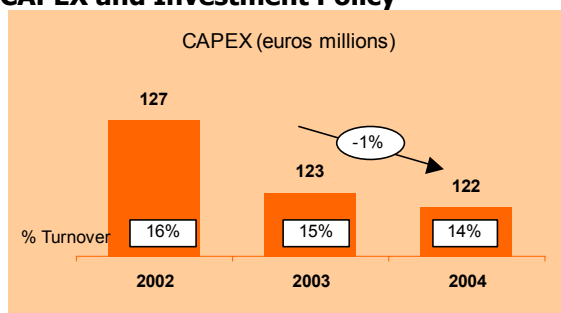
The Tax charge in 2004 was 18.2 million euros of which 1.4 million euros related to current taxes (1 million of which paid at Enabler) and 16.8 million euros related to movements in deferred taxes. The latter include the write-off of 2.8 million euros of deferred tax assets at Clix and the use of 15.5 million euros of deferred taxes to offset profits generated at Optimus.

Net Results ⁵



For the first time in 2004, Consolidated Net Results were positive for the full year. This was the result of the improved operating performance and by lower depreciation and financial costs and notwithstanding the increase in the Tax charge. We delivered an increase in Consolidated Net Results before minority interests to 39 million euros, from Net Losses of 20 million euros in 2003. Net Results attributed to Sonaecom grew to positive 18 million euros in 2004 compared with Net Losses of 19 million euros in 2003.

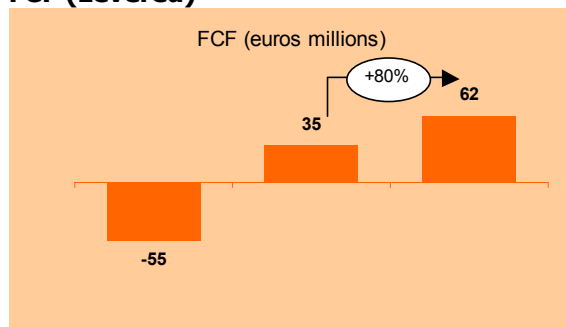
CAPEX and Investment Policy



During 2004, Consolidated CAPEX was 122 million euros, in line with the levels invested in 2003, representing a significant percentage of Turnover, thus reflecting the Group's focus on sustainable growth.

The majority of investments made during 2004 related to the network (82 million euros) and to IT (27 million euros). Optimus invested 104 million euros, mainly directed at improving the overall quality and capacity of the network. In addition, during 2004 Optimus accelerated roll-out of the UMTS network and invested in the improvement of Information Systems, namely in regard to improved CRM and billing processes, centralization of data centres, consolidation of ERP systems and investment in Optimus Zone. Novis invested circa 21 million euros directed primarily to network development but also included 11.2 million euros for the acquisition of KPNQwest Portugal in April 2004.

FCF (Levered)



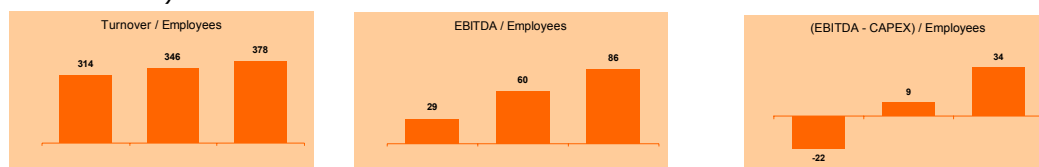
During 2004, Sonaecom generated FCF of 62 million euros, up 80% from the level generated in 2003. In 4Q04, FCF was affected by the decision to make a pre-payment of the 39 million euros outstanding regarding the acquisition of Oniway assets in 2002, which was due to be paid in 2005⁶. Adjusting for this pre-payment, FCF would have reached more than 100 million euros.

⁵ Net Results before Minority Interests in accordance with IFRS

Optimus was the main FCF generator. SSI and Público also generated positive FCF. Novis and Clix were still cash consumers although both companies are gradually progressing towards FCF breakeven.

Productivity

(euros thousands)

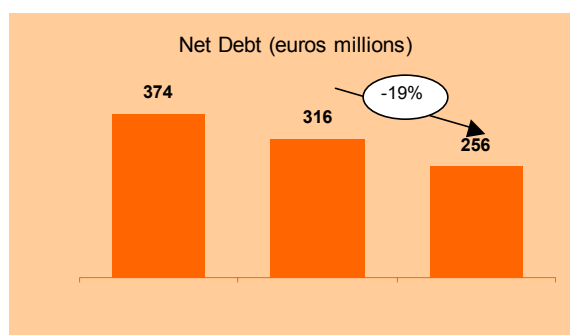


Productivity levels based on Turnover, EBITDA and EBITDA-CAPEX recorded significant improvement as a result of the Group focus on improving processes and systems and on reducing costs.

Capital Structure and Financing

On 6 August, Optimus signed a 5 year, 450 million euro corporate syndicated loan facility to refinance all of Optimus' debt facilities prevailing at the time and to provide sufficient headroom to fully fund its business plan. This facility enabled Optimus to achieve significantly improved terms including a lower spread and less onerous financial covenants. The opening spread on the facility was set at 75 bps until December 2004 and thereafter is subject to an agreed leverage grid (Net Debt/EBITDA). The Facility envisages principal repayments in two tranches: 30% in June 2008 and the remaining 70% in June 2009.

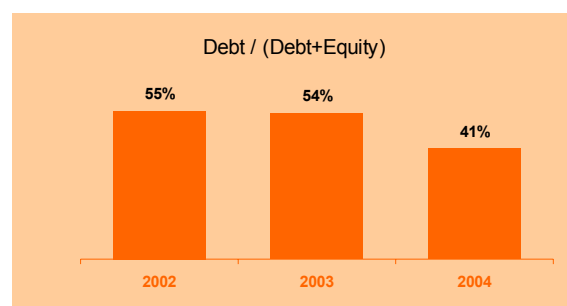
Net Debt⁷



At the end of 2004, Consolidated Net Debt was 256 million euros compared to 316 million euros at the end of 2003.

In December 2004, Sonaecom adopted IAS 39, thus reporting Gross Debt net of the aggregate up-front fees associated with the refinancings of Optimus' debt. Accordingly, 19.3 million euros of aggregate up-front fees and costs have been deducted from Nominal Gross Debt of 328.5 million euros.

Nominal Gross Debt / (Nominal Gross Debt + Equity)

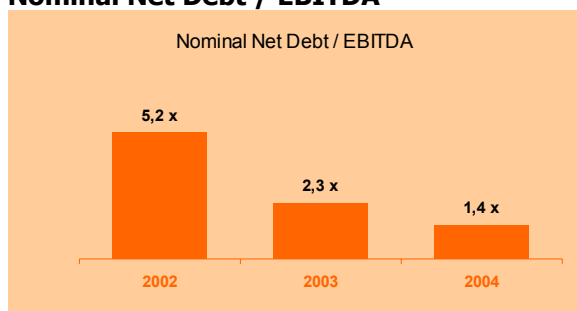


The change in Nominal Gross Debt during the year (excluding the impact of IAS 39) was a reduction of 151 million euros due to the good performance in terms of Operating Cash Flow and the continued policy to minimize Net Financial Expenses at Sonaecom. Liquidity available at Sonaecom was used to reduce Novis' external bank debt in 3Q04 (23 million euros) and available liquidity and FCF

⁶ This was structured as a transfer to Sonae SGPS of the obligation to pay for Oniway assets.

⁷ Adjusted to reflect IAS 39 including comparative periods 2002 and 2003.

Nominal Net Debt / EBITDA



generated at Optimus were used to repay short-term bank debt. As a result of this policy, Consolidated Liquidity was reduced from 144 million euros, at the end of 2003, to 53 million euros at the end of 2004.

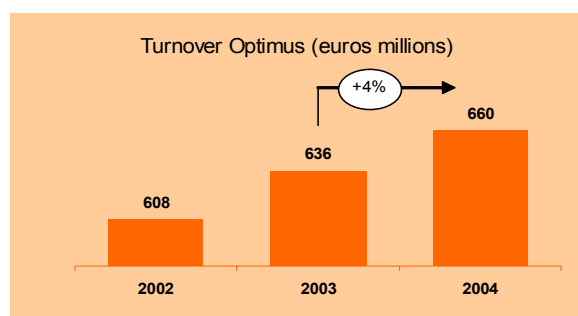
The improvement in indebtedness and the increase in operating profitability led to a significant improvement in capital structure ratios and the ability to fulfil financial obligations. Interest cover increased from 7.9x in 2003 to 12.4x in 2004 and Nominal Net Debt / EBITDA improved from 2.3x to 1.4x.

2.3. Review of main Operating Indicators

2.3.1. Telecoms

Revenues

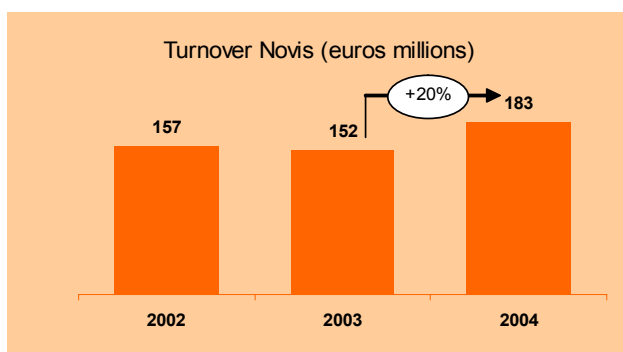
Growth in telecom revenues resulted from a combination of moderate growth in mobile, strong growth in fixed line and a significant reduction in residential Internet revenues.



As regards mobile revenues, additional growth was challenging during 2004, given the already highly penetrated market (more than 100% subscriber penetration as reported by operators) and the industry-wide delay in development of mobile data. In addition, fixed to mobile substitution continued throughout 2004, leading to a reduction in revenues from fixed operators terminating on Optimus' network, which represented 9% of service revenues in 2004 compared with 10% in 2003.

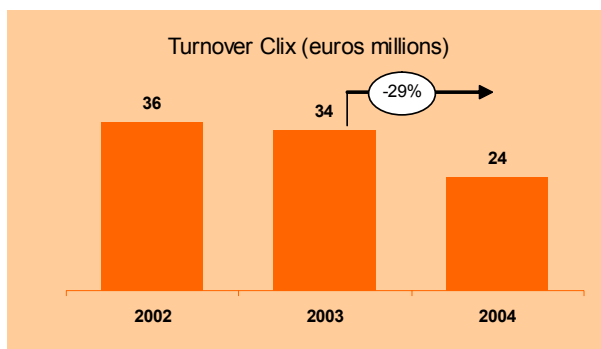
Customer revenues grew by 5%, benefiting from growth in total traffic of circa 2% and from a 2% market wide increase in prices in February. Roaming-in Revenues increased by 14% helped by the incremental revenues associated with the European Football Championship and Rock in Rio Festival, both held in Portugal.

Optimus	2003	2004	% change
Service Revenues	580	602	4%
Customer Revenues	361	380	5%
Operator Revenues	185	183	-1%
Roaming-In	34	39	14%



With respect to fixed line revenues, growth was driven mainly by the increase in Novis' wholesale business and the acquisition of KPNQwest Portugal at the end of April 2004. Indirect access voice revenues declined significantly as a result of management's decision in early 2004 to refocus Novis' business strategy towards the more attractive NPV, direct access solutions in detriment of indirect

access. Although growth in direct accesses was good in 2004, it was not enough to compensate for the loss of indirect access traffic.



Residential Internet revenues declined significantly during 2004, driven by the continued migration of dial-up narrowband customers to broadband solutions. Due to the uneconomic terms offered by PT in its wholesale ADSL offer, Clix suspended its ADSL offer to new customers in February 2004. It was not until November that Clix was in a position to launch a broadband offer over unbundled ADSL

and accordingly, the overall net effect of broadband on revenues in 2004 was marginal.

Customers

Customer growth reflected a combination of trends:

Due to our decision at Optimus, at the beginning of 2004, to review our registered customer policy, eliminating all those that were not considered to be economically viable, subscriber numbers decreased by 8% to 2.13 million reflecting negative net adds of 177 thousand in the year. The majority of these disconnections were related to improvements in activation systems for SME bundled products. Average Revenue per Customer (ARPU) increased 9%, from 22.4 euros in 2003 to 24.3 euros in 2004. Active customers at the end of 2004 were 1.6 million. Optimus' market share of reported subscribers was circa 20%, at the end of 3Q04.

During 2004, Novis recorded a significant increase in its direct access customer base, up 109% compared with 2003. Total active voice customers reduced by 13% to 183 thousand as a result of the lower commercial focus on indirect access voice customers. The total number of circuits supplied increased in 2004 to 4,104 from 1,303 in 2003.

Sonaecom's fixed business is now actively supplying direct access solutions to the SME and Residential segments. By the end of 2004, SHDSL had been rolled-out in 61 local switches to supply Optimus and other large corporates with high capacity circuits. In 23 of these switches, ADSL equipment was deployed to provide direct access solutions for the smaller business and residential segments. By the end of 2004, Novis had 4 thousand direct access ADSL customers. Novis market share at the end of 3Q04 was 5.5% of the residential segment, 9.9% of the business segment and 13.3% of the SoHo segment

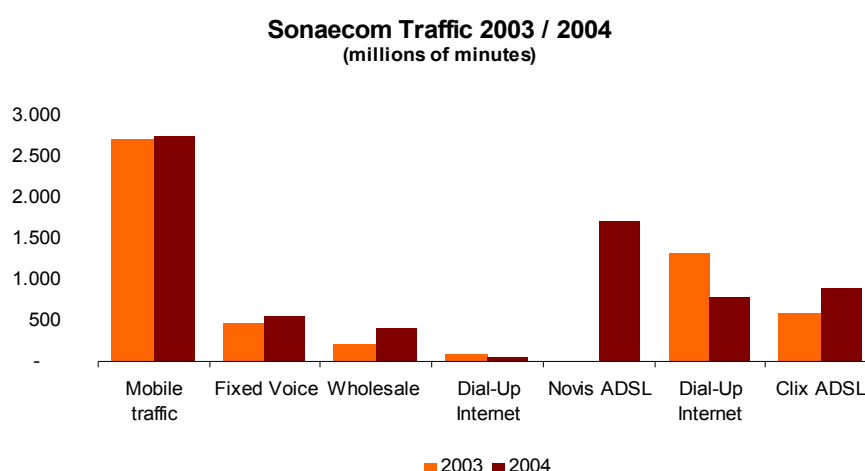


In November, Clix launched the most competitive broadband offer in the market over unbundled ADSL: a 2, 4 and 8 MEGA ADSL offer including the monthly rental fee, priced at less than half the incumbent's best offer and offering up to 8 times the speed with the 8 MEGA offer.

It is important to note that for the ADSL offers, there is a significant time lag, of up to 8 weeks, between subscription and activation of the service explained by the time taken to process a request to unbundle a customer involving provisioning time by Novis and Portugal Telecom. Significant efforts are being made to reduce the provisioning time.

Traffic

Total Traffic managed by the Group increased by 33% to 7.2 billion minutes in 2004 compared with 5.4 billion minutes in 2003, driven primarily by the increase in wholesale traffic and ADSL usage.



2.3.2. Media

The Público newspaper had a positive year in 2004 with some recovery in advertising and continued success of Associated Products. For the full year 2004, Público generated 2.1 million euros of EBITDA (0.5 million euros in 2003), Net Results of 32 thousand euros (Net Losses of 0.8 million euros in 2003) and FCF of 1.2 million euros (2.6 million euros in

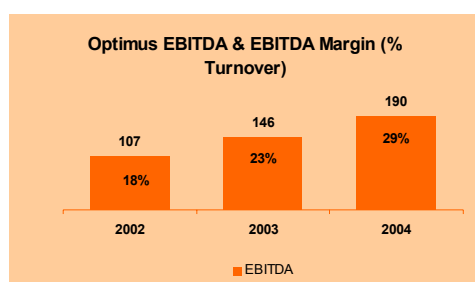
2003). Circulation fell in 2004 compared with the previous year mainly as a result of the success of "tabloid" newspapers and the lower impact on circulation of Associated Products that sold less on average per collection versus 2003. At the end of 3Q04, Público's share of daily circulation was 13.5%. Público continued to develop brand extension initiatives, opening some own kiosks (5 in total at the end of 2004) and tested the concept of a Publishing House by editing 8 original books. Although advertising recovered during 2004, advertising revenues were still below the high achieved in 2001.

2.3.3. SSI

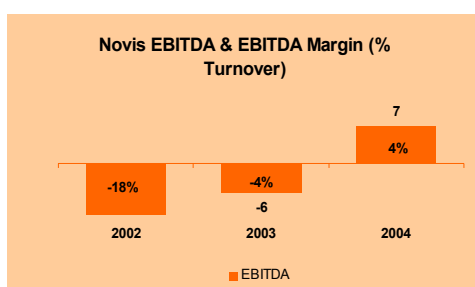
2004 was also a good year overall for SSI. Turnover grew by 8% in 2004 to 67 million euros with EBITDA increasing by 26% to 8 million euros. SSI good margin performance was driven principally by the optimization of subcontracts and a reduction in headcount. FCF in 2004 increased to almost 6 million euros, which compares to circa 2 million euros in 2003. The Portuguese and German markets were the key drivers for Enabler's performance in 2004 along with a particularly good consultant occupancy rate (circa 85%). WeDo won a number of new key Telecom accounts, amongst which ERA (Poland), Auna (Spain), Vimpelcom (Russia) and Vodafone Egypt that acquired the WeDo Revenue Assurance Solution, RAID.

2.3.4. Profitability at the Operating Companies

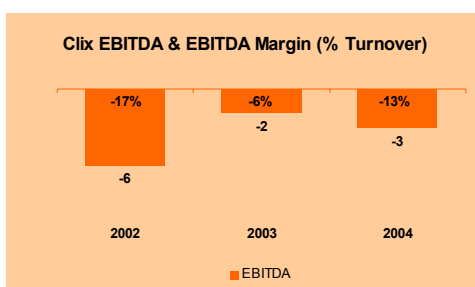
For the full year 2004, all Sonaecom businesses were EBITDA positive with the exception of Clix. Margins as a percentage of Turnover showed strong improvements in 2004 driven by improved revenues, additional savings and operational efficiencies.



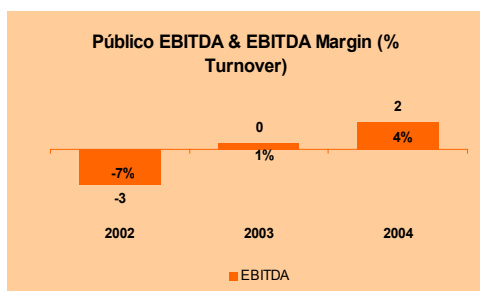
Optimus generated an EBITDA of 190 million euros and delivered an increase of 6 percentage points in EBITDA margin to 29%, from 23% in 2003.



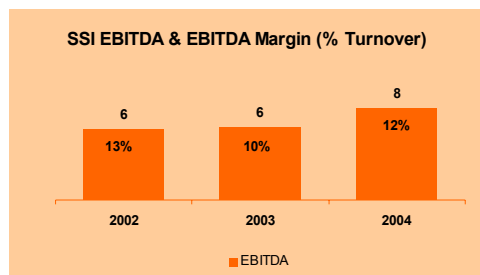
For the first time, Novis was EBITDA positive for the full year with 7 million euros. KPNQwest Portugal contributed 2 million euros to full year EBITDA.



Clix' EBITDA deteriorated from negative 1.9 million euros in 2003 to negative 3.1 million euros in 2004, as a result of its withdrawal from the broadband market until the end of the year, and loss of narrowband customers to competing broadband solutions.



Público Group Turnover grew 6% in 2004 to 55 million euros and EBITDA margin, measured as a percentage of Turnover, increased to 4% compared with 1% in 2003. Público was Net Result positive in 2004, 32 thousand euros and FCF was also positive, 1,2 million euros.



SSI Turnover grew by 8% in 2004 to 67 million euros with EBITDA increasing by 26% to 8 million euros.

2.4. Subsequent Events

The following events, which took place after 31 December 2004 but before the approval of the full year accounts by the Board, should be noted:

2.4.1. Management Changes

In January 2005, Sonae SGPS announced that António Casanova had been invited to become an Executive Board Member of Sonae Imobiliária. At the date of this report António Casanova was an Executive Director at Sonaecom with responsibility for the mobile business and will take up his new position at Sonae Imobiliária as from April 2005. This announcement is consistent with the Sonae Group policy of leveraging on senior management talent around the Group to fill in required executive positions.

The reorganization of the executive management team at Sonaecom further enhances the strategic intent of developing an integrated management team for all the Telecom assets, leveraging synergies and integrated business opportunities wherever possible. As a result, the structure of the executive management team of Sonaecom will undergo the following changes:

- ▣ Luís Reis, currently Executive Director at Sonaecom and responsible for the fixed business, will also take on responsibility for the mobile business;
- ▣ Miguel Almeida, currently Executive Director at Optimus, will become COO of the mobile business reporting to Luís Reis;
- ▣ Pedro Carlos, currently Executive Director at Novis, will remain as COO of the fixed business reporting to Luís Reis.

2.4.2. Commercial Paper

On 28 January 2005, Sonaecom signed a contract with a Portuguese financial institution for the arrangement of a Euro 70 million Commercial Paper Programme ("CPP"). The facility, although aimed at placement with institutional investors, is fully guaranteed by the financial institution responsible for arranging and managing the Programme. The contract signed will be effective for a renewable 5-year period and Sonaecom is able to draw funds under the CPP at its discretion and up to the agreed Euro 70 million limit, for periods of 7 to 360 days. The CPP facility will provide Sonaecom SGPS with a back-up credit facility to support its short-term funding needs and those of its subsidiaries that are unable to raise non-recourse funding at this stage.

2.4.3. Other

On 25 January 2005, the Boards of Directors of Clixgest, Internet e Conteúdos, S.A. and Novis Telecom, S.A. approved the merger by incorporation of Clix into Novis, which will be effective as from 1 January 2005, subject to approval by shareholders at the respective AGMs of Novis and Clix.

2.5. Article 447, 448 and Qualified Participations

Appendix in accordance with article 447 of Código das Sociedades Comerciais

Shares held by the Board of Directors and other Company Officers and respective transactions during 2004

		Additions		Reductions		Balance at 31.12.2004
	Date	Quantity	Medium value €	Quantity	Medium value €	Quantity
BOARD OF DIRECTORS						
Belmiro Mendes de Azevedo						
Efanor Investimentos, SGPS, SA (1)						49.999.997
Imparfin, SGPS, SA (3)						150.000
Sonae, SGPS, SA (4)						14.901
Sonaecom, SGPS, SA						75.537
Duarte Paulo Teixeira de Azevedo						
Efanor Investimentos, SGPS, SA (1)						1
Imparfin, SGPS, SA (3)						150.000
Sonae, SGPS, SA (4)						277.486
Sonaecom, SGPS, SA						278.967
Shares attributed under the Deferred Performance Bonus Plan	01.04.2004	14.092				
António Castelo Branco Borges						
Sonae, SGPS, SA (4)						2.593
Sonaecom, SGPS, SA						3.000
António José Santos Silva Casanova						
Sonae, SGPS, SA (4)						250.000
Sonaecom, SGPS, SA						8.638
Shares attributed under the Deferred Performance Bonus Plan	01.04.2004	8.638				
Sale	08.12.2004			1.075	3,7	
Sale	09.12.2004			50.000	3,7	
Sale	10.12.2004			9.255	3,7	
David Graham Shenton Bain						
Sonae, SGPS, SA (4)						3.518
Sonaecom, SGPS, SA						15.000
Sale	04.03.2004			15.340	3,41	
George Christopher Lawrie						
Sonae, SGPS, SA (4)						106.000
Sonaecom, SGPS, SA						208.000
Luís Filipe Campos Dias de Castro Reis						
Sonaecom, SGPS, SA						
Shares attributed under the Deferred Performance Bonus Plan	01.04.2004	9.363				
Sale	11.05.2004			39.263	3,01	
Richard Henry O'Toole						
Sonaecom, SGPS, SA						3.000
MESA DA ASSEMBLEIA GERAL						
João Pedro Mendonça da Silva						
Sonae, SGPS, SA (4)						10.000
Acquisition	09.11.2004	10.000	0,97			
Sonaecom, SGPS, SA						3.372
Shares attributed under the Deferred Performance Bonus Plan	01.04.2004	3.372				
Filipa de Sousa Taveira da Gama Santos Carvalho						
Sonaecom, SGPS, SA						44

Notes:

		Additions		Reductions		Balance at 31.12.2004
	Date	Quantity	Medium value €	Quantity	Medium value €	Quantity
(1) Efanor Investimentos, SGPS, SA						
Sonae, SGPS, SA						949.983.715
Pareuro, BV (2)						20.000
Sonaecom, SGPS, SA	24.03.2004	1.000	3,08			1.000
(2) Pareuro, BV						
Sonae, SGPS, SA						108.820.695
(3) Imparfin, SGPS, SA						
Sonae, SGPS, SA						4.105.273
(4) Sonae, SGPS, SA						
Sonaecom, SGPS, SA	27.01.2004	299.000	2,94			39.362.998

Appendix in accordance with article 448 of Código das Sociedades Comerciais

	Number of shares as of 31 december 2004
Efanor Investimentos, SGPS, SA	
Sonae, SGPS, SA	949.983.715
Pareuro, BV	20.000
Sonaecom, SGPS, SA	1.000
Pareuro, BV	
Sonae, SGPS, SA	108.820.695
SONAE, SGPS, SA	
Sonaecom, SGPS, SA	39.362.998
Sonae Investments, BV	40
Sonae Investments, BV	
Sonaecom, SGPS, SA	147.211.738

QUALIFYING HOLDINGS

In compliance with sub-paragraph d), of nr 1, of the article 9 of the Stock Market Regulation Authority (Regulamento da CMVM) nr 04/2004, we declare the Qualifying Holdings as of 31 December 2004:

Shareholder	Number of shares	% Voting rights
Sonae Investments, BV	147.211.738	65,07%
Sonae, SGPS, S.A.	39.362.998	17,40%
Duarte Paulo Teixeira de Azevedo	278.967	0,12%
Belmiro Mendes de Azevedo	75.537	0,03%
Ângelo Gabriel Ribeiro dos Santos Paupério	60.070	0,03%
Álvaro Carmona e Costa Portela	5.000	0,00%
Efanor Investimentos, SGPS, SA	1.000	0,00%
Total	186.995.310	82,65%

2.6. Proposal for Application of Results

Sonaecom's Consolidated Net Results as at 31 December 2004, were positive at 18,048,373 euros. Sonaecom's Individual Accounts presented Net Losses of 3,725,781.79 euros. The Board of Directors proposes that the Net Losses in the Individual Accounts be transferred to Accumulated Results.

2.7. Acknowledgements

We would like to thank the Statutory Auditor for the valuable advice and help given during 2004. We would also like to express our gratitude to our suppliers, banks and other associates of the Group for the confidence they have placed in us. The Executive Committee would also like to thank the Non-Executive Directors for their work and valuable advice. Finally, we express our gratitude to all Sonaecom Group staff who have worked tirelessly to ensure our continuing success and whose efforts are clearly visible in the results we have achieved.

3. Report on Corporate Governance

3.1. Compliance with CMVM Recommendations

Sonaecom is compliant with all the CMVM recommendations on Corporate Governance with the exception of Recommendation IV-8, which recommends that the remuneration of all the members of the Board of Directors should be disclosed on an individual basis (see section 3.7.3.3. below).

3.2. Governing Bodies – Constitution and Organization

Sonaecom's Board of Directors comprises 9 members, including 5 Non-Executive Directors and 4 Executive Directors. Three of the Non-Executive Directors are independent, in that they are not associated with special interest groups related to the Company nor to its reference shareholder, in accordance with the criteria established by the CMVM Regulation no. 11/2003 for Independent Directors. These Independent Directors exercise an important influence over the decision-making process and development of company strategy and policy and as such the Board of Directors exhibits a clear balance between the number of Directors that represent reference shareholders and the number of Independent Directors.

Sonaecom's CEO, CFO and the CEO's of the 2 main business units, together with the Advisor to the Board of Directors, integrate the Executive Committee.

Sonaecom Executive Management Team (1)				
Group CEO	Mobile	Fixed and Media	Group CFO	Legal & Regulation
<i>Paulo Azevedo</i>	<i>António Casanova</i>	<i>Luis Filipe Reis</i>	<i>Chris Lawrie</i>	<i>António Lobo Xavier</i>
<ul style="list-style-type: none"> • Group CEO • SSI • Mergers & Acquisition 	<ul style="list-style-type: none"> • Mobile • Environment • Customer Service • Maintenance and Supervision • Internal Communication 	<ul style="list-style-type: none"> • Fixed Line • Media • Human Resources • IT/IS 	<ul style="list-style-type: none"> • Administrative • Investor Relations • Management Planning and Control • Internal Audit • Facilities • Accounting, Finance and Treasury 	<ul style="list-style-type: none"> • Legal • Regulation • Public Relations • Fiscal Planning

⁽¹⁾ Subsequent to year-end 2004, the Management Team has undergone changes, explained in section 2.4. Subsequent Events.

Our Directors

Belmiro de Azevedo

Non-Executive Chairman of the Board of Directors of Sonaecom and Executive Chairman of Sonae SGPS, non-executive member of the World Business Council for Sustainable Development and member of the European Advisory Board of London Business School.

Previous Functions Director of Research and Development of Sonae, CEO

Academic qualifications	and General Manager of Sonae, and Director of the Association for European Monetary Union. Degree in Industrial-orientated Chemical Engineering from the Faculty of Engineering of Porto University, PMD from Harvard Business School, and attended Financial Management Programme of Stanford University.
António Borges (independent)	Non-Executive Director of Sonaecom and Vice-President of Goldman Sachs International.
Previous Functions	Rector of Insead, Vice Governor of the Bank of Portugal, member of the Monetary Committee for the European Community, and Chairman of the Monetary Policy Subcommittee of the European Committee of Central Bank Governors.
Academic qualifications	Degree from Lisbon Technical University, MA and PhD in Economics from Stanford University in California.
Jean-François Pontal (independent)	Non-Executive Director of Sonaecom.
Previous Functions	CEO of Orange, Group Executive Vice-President in charge of Mass Market Products & Services of France Telecom; Various senior executive positions in Carrefour: member of the Board, CEO of PRYCA. Consultant.
Academic qualifications	Degree in Engineering from the French Centre d'Etudes Supérieures des Techniques Industrielles.
Richard O'Toole (independent)	Non-Executive Director of Sonaecom, and advisor and consultant to various private and public sector bodies on trade, competition and regulatory issues.
Previous Functions	Special Assistant at the Office of the Executive Director of the OECD International Energy Agency, European Political Correspondent of Ministry of Foreign Affairs, Chief at the Office of the European Commission, Executive Director of the GPA Technology Division, Assistant Director General of the World Trade Organisation (WTO), Head of Global Government Affairs at ABB and Board Director of Esat Telecom plc of Ireland.
Academic qualifications	B.Sc. and M.Sc. degrees from National University of Ireland.
David Bain	Non-Executive Director of Sonaecom and CFO of Efanor Investimentos SGPS.
Previous Functions	CFO of Sonaecom, Inparsa and Sonae SGPS. Previously CFO of the Auto-Sueco Group and CFO of the Taylor / Fonseca Port Wine Group.
Academic qualifications	Degree in Economics from Bristol University and Fellow of the Institute of Chartered Accountants of England and Wales.
Paulo Azevedo	Chairman of Sonaecom's Executive Committee and Chairman of the Board of Novis. Paulo Azevedo is also a Non-Executive Director of the Board of Sonae Indústria and an Executive Director of the Board of Sonae SGPS.
Previous Functions	Chairman of the Executive Committee of Optimus and Executive Director of Modelo Continente SGPS.

Academic qualifications Degree in Chemical Engineering from École Polytechnique Federal, Lausanne and MBA from the Higher Institute of Business Studies of Porto University.

Luís Filipe Reis

Executive Director of Sonaecom, Chairman of the Executive Committees of Matrix and Novis, non-executive director of Optimus and Sonaecom Sistemas de Informação. Luís Reis is also a Non-Executive Director of the Board of Modelo Continente.

Previous Functions Member of the Executive Board of Modelo Continente SGPS, Chairman of the Board of Banco Universo and Director of Marketing of Sonae Distribuição.

Academic qualifications Degree in Medicine from the Faculty of Medicine of Coimbra University, MBA in Business Management from the Higher Institute of Business Studies of Porto University, Doctorate in Economics from Madrid Complutense University, SEP - Stanford Executive Program (Stanford University).

António Casanova

Executive Director of Sonaecom.

Previous Functions CEO of Optimus; Board Member responsible for Sales and Marketing for Optimus, Deputy Chairman at Lever Portugal, Marketing Co-ordinating Director at Banco Fonsecas & Burnay (Group BPI) and Senior Associate at McKinsey & Co.

Academic qualifications B.Sc. (Honours) Economics from London School of Economics; MBA from Universidade Nova de Lisboa; AMP from Harvard Business School.

Chris Lawrie

Executive Director and CFO of Sonaecom and responsible for group finance, corporate planning and control and internal audit at Sonaecom. Non-executive director of Optimus and WeDo.

Previous Functions Advisor to the Board and the Executive Committee of Sonaecom; worked in investment banking in the areas of M&A, general advisory, equity capital markets and debt financing (covering Southern Europe); Director at CSFB in its European Telecoms Group, Director at BZW and worked at Schrodgers in the banking and corporate financing areas.

Academic qualifications Degree with distinction in Business Studies and Finance.

Advisor to the Board

António Lobo Xavier

Chief Legal Officer of Sonaecom, responsible for regulation, fiscal planning and public relations at Sonaecom and Board or Committee member of a number of public institutions and private companies.

Academic qualifications Degree in Law and a Masters in Economic Law, both from the University of Coimbra.

In order to improve the operational efficiency of the Board of Directors and meet best practice in Corporate Governance, the Board of Directors has created 2 Board Committees, the Board Audit and Finance Committee and the Board Nomination and Remuneration Committee.

BOARD COMMITTEES

Board Audit and Finance Committee	Board Nomination and Remuneration Committee
Richard O'Toole (independent) Jean François Pontal (independent) David Bain	Belmiro de Azevedo António Borges (independent) Jean François Pontal (independent) Paulo Azevedo

3.2.1. The Board

Under the company statutes, Sonaecom's Board of Directors may consist of an odd number of members – three, five, seven or nine members, elected at the Shareholder's General Meeting. The Board mandate is of four years, with the possibility of re-election. The current Board mandate covers the period 2004 to 2007. The Board of Directors shall elect its Chairman. Currently, Sonaecom's Board of Directors has nine members, including 4 executive members and 5 non-executive members, 3 of whom are independent (as previously identified in this section).

The Board meets at least four times a year, as stipulated by the company statutes. There were 5 Board meetings in 2004 of which one was specifically dedicated to Strategic Development. The quorum for any Board Meeting requires that the majority of Directors are present or represented by proxy. Decisions are taken by a majority of votes cast.

During 2004 the Board Nomination and Remuneration Committee (BNRC) carried out an internal evaluation of the Board and looked at how the Board functions and its overall performance. A more formal Board evaluation process is planned for 2005 with the help of an external consultant specialising in these matters and this will include evaluation of individual Board members.

3.2.2. The Executive Committee

The company statutes permit the Board to delegate company business, duties and responsibilities, as considered appropriate, to an Executive Committee. The Executive Committee will comprise members of the Board of Directors selected for this purpose. Under the delegated powers approved by the Board, a unanimous vote of the Executive Committee is necessary for the approval of any of its decisions.

The Executive Committee may only deliberate on matters that relate to general management of the company and not on matters that are exclusively of the competence of the Board of Directors. The Executive Committee is conferred the powers and responsibility to manage and execute day to day operations of the Company except:

- a) to appoint the Chairman of the Board;
- b) to co-opt a substitute for a member of the Board;
- c) to convene Shareholders' General Meetings;
- d) to approve the Annual Report and Accounts;
- e) to grant any pledge, guarantees or charges over the assets of the Company, if those are in excess of an accumulated value of 500,000 euros in any financial year;
- f) to decide to change the Company's registered office or to approve any share capital increases;

- g) to decide on mergers, de-mergers, modifications to the corporate format of the Company and any other projects relating to the association of the Company with other legal entities to form new companies;
- h) to approve the Company's Business Plan and Annual Budget;
- i) to define the key features of personnel policies, including deferred performance bonus plans and variable remuneration plans applicable to senior Directors (above Level XIV), in areas that do not require decisions from the Shareholders' Remuneration Committee ("Comissão de Vencimentos") or deliberations at Shareholder General Meetings;
- j) to define or change major accounting policies of any company included in the consolidation perimeter of the Group;
- k) to approve the Company's quarterly Accounts and half year Report and Accounts;
- l) to sell, acquire directly or by long term lease or transact in any other way, investments classified as tangible fixed assets where the individual transaction value is in excess of 1,000,000 euros, unless covered by the Annual Budget or the Business Plan duly approved by the Board;
- m) to purchase or subscribe for new shares in the share capital of any subsidiary companies where the accumulated amount exceeds 5,000,000 euros in any financial year, unless covered by the Annual Budget or the Business Plan duly approved by the Board;
- n) to invest in any other companies or in other financial assets when the accumulated value is in excess of 1,000,000 euros in any financial year, unless covered by the Annual Budget or the Business Plan duly approved by the Board;
- o) to make any other financial investments which exceeds the accumulated amount of 1,000,000 euros in any financial year, unless covered by the Annual Budget or the Business Plan duly approved by the Board;
- p) to dispose of assets or make other divestments, if such transaction has a significant effect on the operating results of the Company (defined as equal or greater than 5%) or affects the jobs of more than 100 employees, unless covered by the Annual Budget or the Business Plan duly approved by the Board.

To ensure that the Board of Directors is kept well informed by the Executive Committee, all significant decisions taken by the Executive Committee are systematically extracted from the minutes of the meeting and reported, in writing, to the Board of Directors.

The Executive Committee currently meets at least once every month and the Group CEO acts as Chairman of the Executive Committee. There were 21 meetings of the Executive Committee in 2004.

3.2.3. The Board Audit and Finance Committee

Board Audit and Finance Committee

- Richard O'Toole (Chairman - Independent)
- Jean-François Pontal (Independent)
- David Bain

Sonaecom has a Board Audit and Finance Committee ("BAFC") that consists of 3 members who are appointed by and from among the members of the Board. The BAFC meets at least 5 times a year. In 2004, there were 5 BAFC meetings. The BAFC is responsible for monitoring and auditing the company's financial reporting processes and accounting policies, for evaluating risk associated with the company's activities on behalf of the Board, and overseeing Corporate Governance within the

Company. The BAFC also meets directly with the external auditors and the internal audit team. The Committee is currently composed of 3 Non-Executive Directors and is chaired by an independent Non-Executive Director.

3.2.4. The Board Nomination and Remuneration Committee

Board Nomination and Remuneration Committee

- Belmiro de Azevedo (Chairman)
- António Borges (Independent)
- Jean-François Pontal (Independent)
- Paulo Azevedo

The Sonaecom Board Nomination and Remuneration Committee ("BNRC") consists of 4 members: the Chairman of the Sonaecom Board, the Sonaecom CEO, and two independent Non-Executive Directors. The BNRC meets at least once a year. There were 2 BNRC meetings in 2004. It is responsible for identifying candidates for appointment to the Board of Directors or Senior Management positions within the Sonaecom Group and for supervising the preparation of proposals on remuneration and other

compensation on behalf of the Board. The BNRC reports to the Board and liaises with the Sonaecom Shareholders' Remuneration Committee ("Comissão de Vencimentos"). It may also receive assistance from external entities, which ensure absolute confidentiality in relation to the information obtained as a result of that cooperation.

3.3. Voting Rights and Shareholder Representation

Board of the Shareholders' General Meeting

- Luzia Gomes Ferreira (Chairman)
- João Mendonça (Vice-Chairman)
- Filipa Carvalho (Secretary)

The Board of the Shareholders' General Meeting is comprised of a Chairman, Vice-Chairman and a Secretary and is elected by the shareholders for a four-year mandate. Shareholders' General Meetings are convened and conducted by the Chairman or, in his or her absence, by the Vice-Chairman.

In accordance with article 20 of the Company Statutes, the Shareholders' General Meeting may

only be attended by Shareholders with the right to vote based on shares they own or equivalent subscription rights, which, in the eight days prior to the General Meeting, have:

- a) registered the shares in their name, in the Company's share register, if they are registered shares; or
- b) registered them in their name in the Company's share register or alternatively deposited them with a financial intermediary, if they are bearer shares;
- c) entered them in an electronic shareholding account in their names (at the Stock Market Authority and at the Company), if the shares are kept in electronic (non-titled) form.

The deposit with a financial intermediary and the entry referred to in c) of the previous paragraph have to be confirmed in writing by the respective institution and this letter must be received by the Company at least eight days before the General Meeting is held.

Each group of five hundred shares corresponds to a vote; therefore, shareholders have as many votes as the integer part resulting from dividing the number of shares owned by five hundred.

Sonaecom's Statutes allow postal voting for amendment of the statutes and for nomination of new Board members. Voting bulletins must be received at least 3 days before the Shareholder's Meeting at the Company's Head Office and must be addressed to the Chairman of the Board of the Shareholder's Meeting. The Chairman of the Board of the Shareholders' General Meeting is responsible for verifying that written voting papers comply with all the requirements and for ensuring that confidentiality is kept.

Under Sonaecom's statutes, shareholders may be represented at a Shareholders' General Meeting. An individual shareholder may be represented by their spouse, ascendant, descendant, a member of the Board of Directors or another shareholder, by means of a letter addressed to the Chairman of the Board of the Shareholders' General Meeting, indicating the name and address of the representative nominated, as well as the date of the meeting. A corporate shareholder may be represented at a Shareholders' General Meeting by a person designated by means of a letter addressed to the Chairman of the

Board of the Shareholders' General Meeting, the authenticity of which will be considered by the Chairman of the Board of the Shareholders' General Meeting.

Filipa Santos Carvalho is company secretary and Vera Lopes Pereira is substitute company secretary. David Bain is the Board Member responsible for the relationship with the Portuguese Stock Market Authority ("CMVM").

3.3.1. Limitations to Voting Rights

No shareholders have special voting rights. The Board of Directors is unaware of any special voting rights or shareholder agreements and the company has no measures in place which could compromise the success of a public tender offer.

The information relating to the organization of the Shareholders' General Meetings such as the agenda, notice of meeting, and shareholder procedures are available for consultation on Sonaecom's website www.sonaecom.pt.

3.4. Sonaecom Shareholders' Remuneration Committee ("Comissão de Vencimentos")

The Shareholders' Remuneration Committee ("Comissão de Vencimentos") is appointed by the Board of the Shareholders General Meeting and is responsible for, on behalf of the shareholders, authorising the remuneration and other compensation of members of Sonaecom's Board of Directors and of other governing bodies and Committees. This Committee meets at least once a year and is comprised of the following Corporate Shareholders: Sonae SGPS, Sonae Investments BV and Efanor Investimentos SGPS.

3.5. Risk Management

Sonaecom is committed to developing and maintaining best practice Risk Management policies and believes this to be one of the foundations of sound Corporate Governance. Accordingly, Risk Management forms an integral part of all management processes, and all managers at the various levels of the organization, are conscious of and responsible for, Risk Management.

Risk Management is aimed at helping management identify, evaluate and manage risks that can affect Sonaecom's businesses, anticipating factors that might compromise the objectives of the business, and implementing actions to manage those risks.

Sonaecom is focused on strategic risks, which are high impact and probability risks that may make it difficult to pursue the objectives and the creation of value within the company.

The approach adopted in the management of strategic risks makes it possible to align the Risk Management Cycle with the Strategic Planning Cycle of Sonaecom's subsidiaries. This approach is structured into the following stages:

- Prioritising critical business risks
- Identifying and investigating the sources of risk
- Measuring risk exposure
- Implementing actions to place risks on defined levels
- Monitoring actions and risk levels.

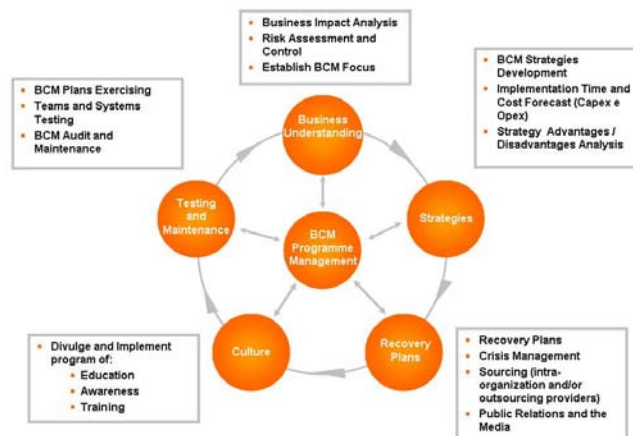
Both Optimus and Público have completed the Risk Management cycle processes. The results obtained from these two processes will allow us to structure and implement similar Risk Management cycles with more confidence in all of the most relevant businesses of Sonaecom's portfolio during 2005.



As part of our overall Risk Management policy, we will pay close attention to safety risks involving tangible assets and people, which although not highly probable risks, nevertheless have a potentially high impact.

The Business Continuity Project has become a high priority. The aim of this project is to lessen the risk of business interruption caused by catastrophes or technical and operating failures. This project has 5 stages:

- Business Understanding
- Devising Recovery Strategies
- Developing and Implementing Recovery Plans
- Communicating and Implementing a culture of Business Continuity Management (BCM)
- Testing, maintaining and auditing Recovery Plans (transitions from the project into the process)



In 2005, Optimus will implement stage 3 of the BCM. Novis and Clix are at the beginning of the cycle and their implementation of Stage 1 – Business Understanding is scheduled for 2005.

Together with the Business Continuity project, Sonaecom periodically performs diagnosis and tests to the physical safety of its critical facilities, namely switch centres (e.g. MSCs), data centres and call centres, in order to obtain a better perception of the risks that they are exposed to and to implement corrective measures.

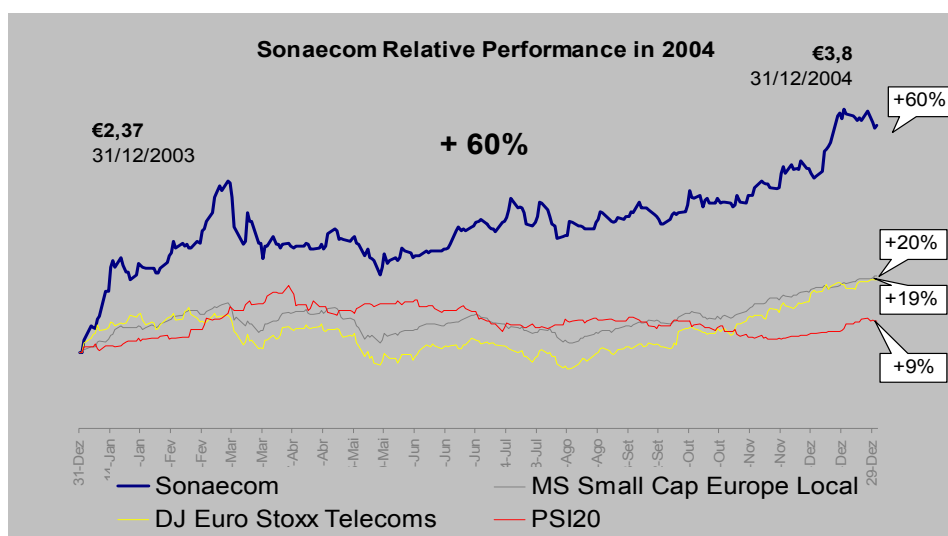
The Internal Audit team reports on a quarterly basis to Sonaecom's Board Audit and Finance Committee summarizing all relevant findings of the audits carried out. Under the

scope of this reporting, special emphasis is made to Risk Management and Business Continuity issues.

3.6. Sonaecom and the Equity Capital Markets

3.6.1. Share Price Performance in 2004

Sonaecom's share price increased by 60% during 2004, closing at 3.8 euros on 31 December, resulting in a market capitalization of 860 million euros. This increase represents an outperformance of the following indices: the main Portuguese Stock Market Index (PSI20) by 51%; the Morgan Stanley European Small Cap Index by 40%; and the main European Telecom's Index (DJ Eurostoxx Telco) by 41%.



The average daily volume traded during 2004 was 344 thousand shares for Sonaecom, which represents circa 1% of the company's free-float (which in turn represents 17.54% of share capital). The good share price performance results from the continued delivery of solid financial and operating results and the improvements achieved in Sonaecom's capital structure, which have met and in many cases have exceeded, market expectations. Sonaecom's share price also benefited from the improving market sentiment towards the Telecom sector in the last quarter of 2004.

During 2004, Sonaecom participated in a number of investor conferences and organised various management road-shows, both in Portugal and in Europe:

February	• Road-show Paris
March	• Road-show Lisbon / London / N York / Boston
May	• Road-show London
June	• Iberian Small & Mid Caps Conference - Lisbon
	• X SCH Telecommunications Seminar - Marbella
September	• Euronext NextEconomy Event - Paris
November	• Road-show Frankfurt / London / Edinburgh
December	• Road-show Madrid

3.6.2. Investor Relations Department

Sonaecom has an Investor Relations Department ("IRD") that is responsible for managing the relationship between the Company and shareholders, investors, analysts and market authorities including the Portuguese Stock Market Authority, the CMVM.

Every quarter, the IRD is responsible for coordinating the preparation of an earnings announcement issued to the market and also provides statements whenever necessary to disclose or clarify any relevant fact or event that could influence the share price. The IRD is available at all times to answer general questions posed by the market.

As part of its commitment to shareholders, the Company is available to meet with investors either in road-shows organized by the Company or “one on one” meetings upon request.

The Sonaecom Investor Relations Department may be contacted by email: investor.relations@sonae.com or by telephone: +351 93 100 2270. Sonaecom’s Investor Relations Officer is Maria João Carrapato.

In addition, Sonaecom has an institutional site (www.sonaecom.pt) that posts all earnings announcements, statements, reports and accounts and any other public documents, press releases or general news items on the Company.

Sonaecom’s formal representative for equity market relations (Representante para as Relações com o Mercado) is David Bain, who can be contacted via the Investor Relations Department or, if required, directly by email: david.bain@sonae.com.

3.7. Duty to Inform

3.7.1. Sonaecom Remuneration and Other Compensation Policy

The Sonaecom remuneration and other compensation policy for all employees includes two components: “Fixed Remuneration”, which is paid as an Annual Salary (salaries are paid 14 times per annum in Portugal); and a “Performance Bonus”, which is paid in the first quarter of the following year. In addition, a discretionary third component may be awarded on the 31 March of the following year, in the form of deferred compensation under the Sonaecom “Deferred Performance Bonus Plan” (“Sonaecom DPBP” or “DPBP”). The Sonaecom DPBP is described in more detail in the following section.

Sonaecom employees are attributed a “Sonaecom Group Level” using Hay’s international model for classification of corporate functions and these levels are used to structure remuneration and other compensation, as they facilitate market comparisons as well as helping to promote internal equity.

Annual Salaries are defined as a function of individual levels of responsibility. Salary levels are reviewed annually and increases reflect primarily the enlargement of responsibilities and to a lesser extent inflation adjustments.

The Performance Bonus is aimed at rewarding the achievement of certain pre-defined annual objectives, which are linked to both “Key Performance Indicators of Business Activity (Business KPIs)” and “Personal KPI’s”. The target amounts attributed correspond to a percentage of the Fixed Remuneration, which varies between 50% and 80% depending on Sonaecom Group Level. Business KPIs (including economic and financial indicators based on approved budgets, share price performance, individual business unit performance as well as the performance of the Group as a whole) derive 70% of the Performance Bonus and are normally objective indicators. The remaining 30% of the Performance Bonus is derived from Personal KPI’s, which are a mix of objective and subjective indicators. Actual amounts paid are based on the real performance achieved or assessed and can represent anything from 0% to 120% of the target amount attributed.

3.7.2. Sonaecom Deferred Performance Bonus Plan ("Sonaecom DPBP" or "DPBP")

In addition to Fixed Remuneration and the Performance Bonus, the more senior Sonaecom employees (Sonaecom Group Levels 9 and above) are eligible to participate in the Sonaecom DPBP. The DPBP is a discretionary deferred compensation plan, which is equity based, and has a three year deferral period between the award date and the date when the benefit vests. The decision to make DPBP awards for any year is taken by the BNRC on behalf of the Board. The values awarded are derived from the Performance Bonuses actually paid for the same "performance year".

As described in the section above, the Sonaecom DPBP is a discretionary third component of Sonaecom's remuneration and other compensation policy. The DPBP is aimed at

enhancing loyalty and increasing employees' awareness of the importance of their performance on the overall success of Sonaecom, as reflected by the Company's share price.

In the past, participants in the Sonaecom DPBP were given the alternative of choosing between share options (the "Sonaecom Share Options Plans") or shares (the "Sonaecom Share Plans"). As from the awards made in March 2004 (relating to 2003 performance – the "2003 Plan"), all participants now receive shares.

All Group employees that are Level 9⁸, or higher, are eligible to participate in the Sonaecom DPBP, as long as their entry date is before 31 December of the previous year (Deferred Performance Bonus Plans are awarded in March each year, in respect of performance during the financial previous year).

The value awarded is determined by applying the following percentages to the Performance Bonuses paid, according to employee levels in the Group (see footnote):

Level 9	Up to 60%
Level 10 & 11	Up to 70%
Level 12	Up to 80%
Level 13 & 14	Up to 90%
Level 15 and higher	Up to 100%

For the most senior Sonaecom employees, of Sonaecom Group Levels 16 and above, awards under the DPBP also includes a part that is linked to Sonae SGPS shares (the "Sonae Share Plans"), this amount can represent up to 40% of the total value awarded each year, depending on the Sonaecom Group Level. In the case of the Sonae Share Plans, the BNRC has the option to pay the cash equivalent at the vesting date, in lieu of shares. This element of the DPBP was introduced by Sonaecom consistent with the Sonae group-wide practice to: incentivise cooperation between Group companies, maximize Group synergies where possible and to stimulate the exchange of knowledge, without compromising individual company objectives. In the case of Sonaecom, our companies have clearly benefited from the association with the Sonae Group through partnership agreements and through the sourcing of senior management talent, particularly in the early phase of development of Sonaecom.

In June 2000, at the time of the IPO, the first DPBP was established in the form of options only, at an exercise price of 10 euros per share (The "IPO Plan"). The IPO Plan lapsed in 2003. Four other DPBPs have been awarded to date between 31 March 2001 (the 2000 Plan) and 31 March 2004 (the 2003 Plan).

⁸ Sonaecom Group Levels are attributed according to Hay's international model for classification of corporate functions. Sonaecom has defined internally that Managers with levels equal to or higher than 14 are "Top Managers" and those with levels equal to or higher than 15 may be Executive Committee members on Sonaecom Group companies.

For the DPBPs based on options, the underlying value of each share option is determined by using the 'Black-Scholes Option Pricing Model'. The number of share options awarded is calculated by dividing the value of the DPBP awarded by the share option value. The Share Options can be exercised as from the vesting date, which is the third anniversary of the award date, during a pre-determined exercise period of 12 months. The exercise price for the options is equal to the average share price in the month prior to the award date.

For the DPBPs based on shares, the number of shares to be awarded is calculated by dividing the value of the DPBP awarded by the average share price in the month prior to the award date. The shares vested are transferred to the beneficiaries on the third anniversary of the award date at zero cost or, in the case of Sonae SGPS shares, the cash equivalent at that date, may be paid.

The Sonaecom Share Plans outstanding during 2004 can be summarised as follows:

	Share price at award date*	Vesting period		Exercise period		At 31 December 2004	
		Award date	Vesting date	From	To	Aggregate number of participants	Number of options /shares
Sonaecom Options							
2000 Plan	6,265	31-Mar-01	31-Mar-04	01-Apr-04	31-Mar-05	25	65.940
2001 Plan	3,014	31-Mar-02	31-Mar-05	01-Apr-05	31-Mar-06	87	595.090
2002 Plan	1,694	31-Mar-03	31-Mar-06	01-Apr-06	31-Mar-07	122	2.018.339
2003 Plan	-	-	-	-	-	-	-
Sonaecom Shares							
2000 Plan	6,265	31-Mar-01	31-Mar-04	-	-	-	-
2001 Plan	3,014	31-Mar-02	31-Mar-05	-	-	243	823.307
2002 Plan	1,694	31-Mar-03	31-Mar-06	-	-	226	1.345.895
2003 Plan	3,190	31-Mar-04	31-Mar-07	-	-	387	1.287.059

* Average share price in the month prior to the award date.

The number of awarded, unvested, vested, cancelled or lapsed and exercisable Sonaecom options and Sonaecom shares under the DPBP for the year ended 31 December 2004, are shown in the following table:

	Sonaecom options		Sonaecom shares		Total
	Aggregate number of participants	Number of options	Aggregate number of participants	Number of shares	Corresponding shares
Outstanding at 31.12.2003					
Exercisable	-	-	-	-	-
Unvested	259	2.931.393	713	2.624.575	5.555.968
Total	259	2.931.393	713	2.624.575	5.555.968
Movements in the year					
Awarded	-	-	406	1.325.763	1.325.763
Vested	(25)	(65.940)	(182)	(293.177)	(293.177)
Exercisable	25	65.940	-	-	-
Cancelled/Lapsed	(25)	(252.024)	(81)	(200.900)	(518.864)
Outstanding at 31.12.2004					
Exercisable	25	65.940	-	-	65.940
Unvested	209	2.613.429	856	3.456.261	6.069.690
Total	234	2.679.369	856	3.456.261	6.135.630

The Sonae SGPS Share Plans are similar to Sonaecom Share Plans except that it is current practice to pay the cash equivalent at the vesting date rather than transfer actual shares at zero cost. Under the DPBP, four annual plans have been awarded to date between 31 March 2001 (the 2000 Plan) and 31 March 2004 (the 2003 Plan).

The Sonae SGPS Share Plans outstanding during 2004 can be summarised as follows:

	Share price at award date	Vesting period		At 31 December 2004	
		Award date	Vesting date	Aggregate number of participants	Number of shares
Sonae SGPS Shares					
2000 Plan	1,12	31-Mar-01	31-Mar-04	-	-
2001 Plan	0,92	31-Mar-02	31-Mar-05	11	219.847
2002 Plan	0,36	31-Mar-03	31-Mar-06	11	570.281
2003 Plan	0,93	31-Mar-04	31-Mar-07	12	255.444

The number of awarded, unvested, vested and cancelled or lapsed Sonae SGPS shares under the DPBP for the year ended 31 December 2004, are shown in the following table:

	Sonae SGPS shares	
	Aggregate number of participants	Number of shares
Outstanding at 31.12.2003		
Unvested	28	899.660
Movements in the year		
Awarded	12	255.444
Vested	(6)	(109.532)
Cancelled/Lapsed	-	-
Outstanding at 31.12.2004		
Unvested	34	1.045.572

Sonaecom SGPS has signed agreements to cover the execution and hedging all of its DPBP and related obligations. In turn, Sonaecom SGPS has entered into mirror agreements with its subsidiaries to pass on the corresponding commitments to each Sonaecom subsidiary.

The effect of these agreements is that Sonaecom's liability, related to the Sonaecom Shares Plans, under the DPBP is capped at a maximum share price of Euro 2.25 per share (plus interest that accrues on payments that are deferred), for the 2001 Plan, the 2002 Plan and the 2003 Plan and a share price of Euro 3.14 (plus interest that accrues on payments that are deferred), for the 2004 Plan. Taking into account these hedging arrangements, Sonaecom's total liability as at 31 December 2004 was Euro 11,977,529, which is included under "Other Liabilities" in the accounts.

The cost of the DPBP is recognised in the accounts over the respective deferral period of each annual plan. As at 31 December 2004, 7 million euros had been expensed as a cost (3.9 million euros during 2004 and 3.1 million euros in previous years, including 0.7 millions related with the DPBP vested during 2004) and the remaining 5.6 million euros has not yet been expensed and has been accounted for as a "Deferred Cost".

3.7.3. Directors' Remuneration and Other Compensation Policy

The Sonaecom BNRC is responsible for identifying candidates for appointment to the Board of Directors and for supervising the preparation of proposals relating to the remuneration and other compensation of the Board of Directors (including both Executive and Non-Executive Directors). The composition and functioning of the BNRC is described in section 3.2.4 above. Remuneration and compensation proposals for Executive Directors (excluding the Sonaecom CEO) are based on proposals made by the Sonaecom CEO, which are prepared taking into account: (i) market comparables; (ii) other Sonae Group comparables; and (iii) individual appraisals of each Executive Director. The remuneration and other compensation proposals for the CEO and the fixed remuneration proposals for the Non-

Executive Directors are based on proposals made by the Sonaecom Chairman, using the same methodology.

Formally, the Board of Directors is responsible for remuneration and other compensation policy and for proposing the amounts attributed to each Director, but the Board delegates prime responsibility to the BNRC as well as the responsibility for liaising with the Shareholders' Remuneration Committee (see section 3.4 above), which has to approve the final proposals on Board remuneration and other compensation, on behalf of Sonaecom's shareholders.

The remuneration policy of Board of Directors of Sonaecom SGPS is aimed at remunerating in a fair, efficient and competitive manner, taking into consideration the individual responsibilities and performance of each Director, both at subsidiary company and at Sonaecom Group level.

The Executive Directors are remunerated and benefit from other compensation, within the Sonaecom Group Policy that applies to all employees of level 9 and above, as described in Section 3.7.1 to 3.7.2 above. The Executive Directors receive both Fixed Remuneration and a Performance Bonus and also participate in the Sonaecom DPBP.

For each Non-Executive Director, Fixed Remuneration assumes an agreed commitment of time for the year. This includes preparing and attending at least 5 Board Meetings each year. In addition, the members of the Board Committees benefit from an additional 10% of Fixed Remuneration. In the case of the Chairman of the BAFC and of the BNRC, the Fixed Remuneration is further increased by 5%. These additional amounts reflect the increased time commitment and responsibility involved. Non-Executive Directors do not receive Performance Bonuses nor do they participate in the Sonaecom DPBP.

3.7.3.1. Directors' Remuneration and Other Compensation

In 2004, the Remuneration of Directors including Fixed Remuneration and Performance Bonus (both computed on an accruals basis) was as follows:

Amounts in euros	Fixed Remuneration	Performance Bonus	Total
Individual breakdown			
Chairman (Non-Executive)	50.000	-	50.000
CEO (Executive)	324.285	264.450	588.735
Average of the remaining 3 Executive Directors	205.231	128.043	333.274
Average of the remaining 4 Non-Executive Directors	34.141	-	34.141
Aggregate			
Executive Directors (4)	939.978	648.579	1.588.557
Non-Executive Directors (5)	186.563	-	186.563
	1.126.541	648.579	1.775.120

Non-Executive Directors do not receive Performance Bonuses. The Performance Bonuses of the Executive Directors in the table above represent the best estimate as at 31 December 2004 for their Performance Bonuses for performance during 2004. The final values will be determined and paid in March 2005, after actual performance has been fully assessed and after the resulting bonuses have been approved by the Board Nomination and Remuneration Committee, on behalf of the Board, and by the Shareholders' Remuneration Committee, on behalf of the shareholders.

In addition to the values shown above, Executive Directors have been awarded other compensation under the Sonaecom Deferred Performance Bonus Plan as explained in section 3.7.3.2 below.

3.7.3.2. Directors' Participation in the Sonaecom Deferred Performance Bonus Plan

Non-Executive Directors do not participate in the Sonaecom Deferred Performance Bonus Plan. The shares and options awarded to Executive Directors as part of the Sonaecom Deferred Performance Bonus Plan, up to 31 December 2004, that vested, were exercised or remain unvested during 2004, can be summarised as follows:

	Vested (1)	Unvested			
	Plan 2000	Plan 2001	Plan 2002	Plan 2003	Total
Award date	31-Mar-01	31-Mar-02	31-Mar-03	31-Mar-04	
Vesting date and Beginning of the exercise period (for options)	31-Mar-04	31-Mar-05	31-Mar-06	31-Mar-07	
Sonaecom share price:					
At award date*	6,265	3,014	1,694	3,190	-
At vesting date	3,05	-	-	-	-
At 31 December 2004	-	3,80	3,80	3,80	-
Sonaecom options:					
Strike price*	6,265	3,014	1,694	-	-
Value at award date	2,192	1,273	0,601	-	-
Value at 31 December 2004	-	0,931	2,272	-	-
Sonae SGPS share price:					
At award date	1,12	0,92	0,36	0,93	-
At vesting date	0,93	-	-	-	-
At 31 December 2004	-	1,07	1,07	1,07	-
CEO (Executive)					
Number of Sonaecom shares	14.092	36.828	71.547	44.577	152.952
Number of Sonaecom options	-	-	-	-	-
Number of Sonae SGPS shares	52.552	80.435	224.444	101.935	406.814
Value at award date	147.145	185.000	202.001	237.000	624.000
Value at vesting date	91.854	-	-	-	-
Value at 31 December 2004	-	226.012	512.034	278.463	1.016.509
Average of the remaining Executive Directors					
Number of the remaining Executive Directors	2	2	2	3	-
Number of Sonaecom shares	9.001	21.588	22.893	22.733	90.105
Number of Sonaecom options	-	-	53.009	-	106.018
Number of Sonae SGPS shares	21.578	30.310	84.125	28.473	142.907
Value at award date	80.555	92.950	100.950	98.997	292.896
Value at vesting date	47.519	-	-	-	-
Value at 31 December 2004	-	114.464	297.416	116.850	528.730
Total of the remaining Executive Directors					
Number of Sonaecom shares	18.001	43.175	45.785	68.198	157.158
Number of Sonaecom options	-	-	106.018	-	106.018
Number of Sonae SGPS shares	43.155	60.620	168.250	85.418	314.288
Value at award date	161.113	185.900	201.899	296.990	684.790
Value at vesting date	95.037	-	-	-	-
Value at 31 December 2004	-	228.928	594.832	350.550	1.174.310
Total					
Number of Sonaecom shares	32.093	80.003	117.332	112.775	310.110
Number of Sonaecom options	-	-	106.018	-	106.018
Number of Sonae SGPS shares	95.707	141.054	392.694	187.353	721.102
Value at award date	308.257	370.900	403.900	533.991	1.308.791
Value at vesting date	186.891	-	-	-	-
Value at 31 December 2004	-	454.940	1.106.866	629.013	2.190.818

* Average share price in the month prior to the award date.

(1) Vested on 31 March 2004. In the case of Sonae SGPS shares, the cash equivalent was paid, rather than shares being transferred at zero cost.

The cost of the DPBP is recognised in the accounts over the respective deferral period of each annual plan. When the responsibilities are not hedged, the accumulated accruals are marked-to-market on a monthly basis for changes in share prices and option values (which may result from changes in volatility, maturity, interest rate or share price). The total accumulated costs of all plans awarded up to 31 December 2004, relating to Directors, have been or will be expensed, as follows:

Plan	Deferral period	Value		Annual expense						
		At award date	At 31-Dec-04 (1)	2001	2002	2003	2004	2005	2006	2007
2000	2001 - 2004	308.257	161.667	40.417	53.889	53.889	13.472	-	-	-
2001	2002 - 2005	370.900	299.619	-	74.904	99.873	99.873	24.968	-	-
2002	2003 - 2006	403.900	699.097	-	-	174.774	233.032	233.032	58.258	-
2003	2004 - 2007	533.991	521.649	-	-	0	130.412	173.883	173.883	43.471
		1.617.048	1.682.031	40.417	128.793	328.535	476.789	431.883	232.141	43.471

(1) Total liabilities at current market price (using the Black Scholes option pricing model for options), net of benefits of hedging operations, except for the 2000 plan, which vested on 31 March 2004 and is valued at that date, net of benefits of hedging operations.

3.7.3.3. Compliance with CMVM and European Union Recommendations

The Sonaecom Group has been progressively adapting its policy and disclosure in relation to the remuneration and other compensation of the Board of Directors, to comply with international Corporate Governance guidelines and best practices. In this respect, Sonaecom is compliant with all the CMVM (the Portuguese Stock Market Regulator) recommendations on Corporate Governance with the exception of Recommendation IV-8, which recommends that the remuneration of all members of the Board of Directors should be disclosed on an individual basis. Sonaecom has provided aggregate information regarding the Fixed Remuneration and the Performance Bonuses of Sonaecom's Board of Directors as well as extensive information on the Board's participation in the Sonaecom DPBP. Sonaecom has not disclosed the remuneration of the Board of Directors on an individual basis, as this is not yet a general practice in Portugal nor is it a legal requirement under Portuguese company law.

Consistent with the disclosure policy in our 2003 Management Report and Accounts, the Board decided to continue to disclose Directors' remuneration and other compensation, with the following analysis: Chairman (Non-Executive), CEO (Executive), average for the remaining 3 Executive Directors, average for the remaining 4 Non-Executive Directors, and aggregates for the Executive Directors only and for the Non-Executive Directors only (see Section 3.6.3.1 above). The Board's decision is based on the fact that individual figures for all Directors are not generally being disclosed by other listed Portuguese companies, including Sonaecom's close competitors. The Board believes that the disclosure made is adequate to separately assess the remuneration of the four main components of the Board: being the Chairman, the CEO, the Executive Committee and the Non-Executive Directors.

The disclosure of Directors' Remuneration in this section also complies with all the main Draft European Commission Recommendations for the remuneration of directors of listed companies, with the exception of: (i) the individual remuneration disclosure; and (ii) the inclusion as an explicit item on the agenda of the Annual General Meeting, of remuneration policy or significant changes thereto.

3.7.4. Share Dealing Guidelines and Notification Rules

In October 2004, the Sonaecom Board approved formal guidelines regarding Share Dealings by Sonaecom Directors and "Relevant Employees". The agreed scope of coverage,

including the meaning of Directors and Relevant Employees, within the Sonaecom Group, is the following:

- ▣ Members of the Board of Directors of Sonaecom SGPS;
- ▣ Members of the Board of Directors of all other Sonaecom Group companies;
- ▣ Sonaecom Group Employees working in areas that tend to have access to Price Sensitive Information (PSI), which includes: Planning & Control, Treasury & Finance, Investor Relations and Accounting & Administration.

These rules will also apply to "Connected Persons" of Directors and Relevant Employees.

These guidelines, summarised below, are based on current practice in the UK for listed companies as set out in "Chapter 16 – Directors" of the UK Listing Rules issued by the UK Listing Authority, with the exception of the notification rules, which are based on the CMVM regulations currently applying in Portugal.

- ▣ Directors and relevant employees of Sonaecom should not deal for short-term purposes (ie. should not "trade");
- ▣ Directors and Relevant Employees of Sonaecom should always obtain formal clearance (in writing) from a second designated officer to deal in securities of Sonaecom SGPS ("Sonaecom");
- ▣ Dealings in Sonaecom shares will be prohibited under the following circumstances:
 - In a "Close Period" being the period before (but not after) an Earnings Announcement, where the close period is defined as 2 months for year-end Earnings Announcements and 1 month for the half-year and other quarters;
 - When any matter exists which represents unpublished price sensitive information (PSI);
 - Any other period that the Director responsible for clearance believes may result in dealing in breach of these guidelines;
 - However, there is an "exceptional personal financial circumstances" clause allowing sales but not purchases.

Clear internal procedures have been established and communicated regarding implementation of these share dealing guidelines. The "designated officer" for Directors is the Chairman of the Board Audit and Finance Committee, Richard O'Toole, who is an independent Non-Executive Director.

The CMVM notification rules require notification from: (a) Directors of Sonaecom SGPS; (b) Directors of companies that control Sonaecom SGPS; (c) companies controlled by any of the above Directors; or (d) persons who act on behalf of any of the Directors or companies above. The notification has to be made to Sonaecom SGPS within the 7 working days following the dealing in shares or initial listing of shares and Sonaecom SGPS must inform the CMVM immediately after receiving this information.

The notification must include: (a) the legal form of the acquisition or disposal and the respective date; (b) the number of shares involved and the number of shares held after the transaction; and (c) the price.

3.7.5. Material Non-Operational Transactions with Related Parties

No material non-operational transactions were made during the year with the Companies' Officers (which includes Members of the Board of Directors and the Statutory Auditor), owners of qualified shareholdings or with controlling or Group companies with the exception of the agreement signed with Sonae Investments BV and Sonae SGPS, relating to hedging the Sonaecom Deferred Performance Bonus Plan. In the course of normal

treasury management, Sonaecom places its excess liquidity with Sonae SGPS earning a rate of EURIBOR flat. As at 31 December 2004, Sonaecom's total liquidity was 53.3 million euros, of which 35.4 million euros was placed with Sonae SGPS.

On 16 December 2003 and 30 July 2004, Sonaecom SGPS signed agreements with Sonae Investments and Sonae SGPS to cover the execution and hedging all of its DPBP (Deferred Performance Bonus Plan) and related obligations. In turn, Sonaecom SGPS has entered into mirror agreements with its subsidiaries to pass on the corresponding commitments to each Sonaecom subsidiary

In 4Q04, Optimus pre-paid 39 million euros outstanding regarding the acquisition of Oniway assets in 2002, which was due to be paid in 2005. This prepayment was structured as a transfer to Sonae SGPS of the obligation to pay for these assets.

3.7.6. Auditor's Fees

During 2004, the Sonaecom Group paid the following fees to the Statutory and External Auditors, Deloitte and their network of companies:

	Legal Certification of Accounts	Other Compliance & Assurance Services	Tax Consultancy Services	Other Services	Total
Deloitte Group	201,633	5,976	46,474	442,186	696,269
	29%	1%	7%	63%	100%

Other services shown above include one-off projects related to UMTS obligations, IAS training and certain services that were transferred from Deloitte to other service providers, as from October 2004. Excluding these one-off projects and the services already moved to third party service providers, we estimated that audit fees would have represented circa 63% of total fees during 2004. The level of "one-off" projects during 2004 has once again been much higher than that considered acceptable by the Board Audit and Finance Committee and this is not expected to be repeated during 2005.

Our Risk Management Policy (described earlier in this Appendix), which is supervised by the Board Audit and Finance Committee, monitors the services requested from our Statutory and External Auditors and their respective network of companies, in order to ensure that their independence is not compromised. Annual fees paid by Sonaecom to the Deloitte Group represented less than 1% of their total global fees in Portugal. In addition, an 'Independence Letter' is obtained each year from Deloitte confirming that they meet international guidelines on auditor independence.

3.7.7. Other Positions held by our Directors

Belmiro Mendes de Azevedo

CASA AGRÍCOLA DE AMBRÃES, S.A. (Chairman of the Board of Directors, executive)
EFANOR INVESTIMENTOS, SGPS, S.A. (Chairman of the Board of Directors, executive)
IMOCAPITAL - SGPS, S.A. (Chairman of the Board of Directors, non-executive)
MODELO CONTINENTE, SGPS, S.A. (Chairman of the Board of Directors, non-executive)
PRAÇA FOZ - SOCIEDADE IMOBILIÁRIA, S.A. (Chairman of the Board of Directors, executive)
SETIMANALE - SGPS, S.A. (Chairman of the Board of Directors, non-executive)
SONAE - SGPS, S.A. (Chairman of the Board of Directors, executive)
SONAE CAPITAL, SGPS, S.A. (Chairman of the Board of Directors, non-executive)
SONAE IMOBILIÁRIA - SGPS, S.A. (Chairman of the Board of Directors, non-executive)
SONAE INDÚSTRIA - SGPS, S.A. (Chairman of the Board of Directors, non-executive)

SONAE PRODUTOS E DERIVADOS FLORESTAIS, S.A. (Member of the Board of Directors, non-executive)

SPRED - SGPS, S.A. (Chairman of the Board of Directors, non-executive)

António Castelo Branco Borges

BANCO SANTANDER DE NEGÓCIOS PORTUGAL, S.A. (Chairman of the Statutory Fiscal Board)

GOLDMAN SACHS INTERNATIONAL (Vice-Chairman of the Board of Directors)

JERÓNIMO MARTINS, SGPS, S.A. (Member of the Board of Directors)

CNP Assurances (Member of the Supervisory Board)

Caixa Seguros (Member of the Board of Directors, non-executive)

SCOR (Member of the Supervisory Board)

Heidrick & Struggles (Member of the Board of Directors)

David Graham Shenton Bain

ANTIQUIMO- SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

BA CAPITAL SGPS, S.A. (Member of the Board of Directors, non-executive)

CASA AGRÍCOLA DE AMBRÃES, S.A. (Member of the Board of Directors, non-executive)

EFANOR – SERVIÇOS DE APOIO À GESTÃO, S.A. (Member of the Board of Directors, executive)

IMO EQUIP – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

IMO ESPIDO – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

IMOPINCEL – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

IMOSOALHO – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

LAMIRÉ – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

LIAMAN, S.A. (Member of the Board of Directors, non-executive)

LINHACOM SGPS, S.A. (Member of the Board of Directors, non-executive)

MAGNOIMO – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

MIGRACOM – SGPS, S.A. (Member of the Board of Directors, non-executive)

PAREURO, BV (Company Director, non-executive)

PLANTIMO – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

REALEJO – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

RETAILBOX, BV (Company Director, non-executive)

SETIMANALE SGPS, S.A. (Member of the Board of Directors, non-executive)

SONAE TELECOM, BV (Company Director, non-executive)

TOTAL SHARE SGPS, S.A. (Member of the Board of Directors, non-executive)

VISTAS DA FOZ – SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors, non-executive)

Jean-François René Pontal

ING DIRECT, France (Member of the Advisory Board)

Richard Henry O'Toole

Hutchison Europe Limited, United Kingdom (Member of the Board of Directors, non-executive)

Duarte Paulo Teixeira de Azevedo

CLIXGEST - INTERNET E CONTEÚDOS, S.A. (Chairman of the Board of Directors)
EFANOR INVESTIMENTOS, SGPS, S.A. (Member of the Board of Directors)
ENABLER - INFORMÁTICA, S.A. (Chairman of the Board of Directors)
GLUNZ, A.G. (Member of the Supervisory Board)
IMPARFIN, SGPS, S.A. (Member of the Board of Directors)
MIGRACOM - SGPS, S.A. (Chairman of the Board of Directors)
NOVIS TELECOM, S.A. (Chairman of the Board of Directors)
PRAÇA FOZ - SOCIEDADE IMOBILIÁRIA, S.A. (Member of the Board of Directors)
PÚBLICO COMUNICAÇÃO SOCIAL, S.A. (Member of the General Council)
SONAE, SGPS, S.A. (Member of the Board of Directors, executive)
SONAE INDÚSTRIA, SGPS, S.A. (Member of the Board of Directors, non-executive)
SONAE MATRIX MULTIMÉDIA, SGPS, S.A. (Chairman of the Board of Directors)
SONAE TELECOM, SGPS, S.A. (Chairman of the Board of Directors)
SONAE COM – Sistemas de Informação, SGPS, S.A. (Chairman of the Board of Directors)
TABLEROS DE FIBRAS, S.A. (Chairman of the Board of Directors, non-executive)
WEDO CONSULTING - SISTEMAS DE INFORMAÇÃO, S.A. (Chairman of the Board of Directors)

António José Santos Silva Casanova

EUROCASH, S.A. (Member of the Supervisory Board)
PER - MAR, SOCIEDADE DE CONSTRUÇÕES, S.A. (Chairman of the Board of Directors)
PÚBLICO - COMUNICAÇÃO SOCIAL, S.A. (Member of the General Council)
OPTIMUS TOWERING – GESTÃO DE TORRES DE TELECOMUNICAÇÕES, S.A. (Chairman of the Board of Directors, executive)
SONAE TELECOM SGPS, S.A. (Member of the Board of Directors)
WEDO CONSULTING - SISTEMAS DE INFORMAÇÃO, S.A. (Member of the Board of Directors, non-executive)

George Christopher Lawrie

SONAE MATRIX MULTIMÉDIA, SGPS, S.A. (Member of the Board of Directors, non-executive)
OPTIMUS TELECOMUNICAÇÕES, S.A. (Member of the Board of Directors, non-executive)
WEDO CONSULTING - SISTEMAS DE INFORMAÇÃO, S.A. (Member of the Board of Directors, non-executive)

Luís Filipe Campos Dias de Castro Reis

CLIXGEST – INTERNET E CONTEÚDOS, S.A. (Member of the Board of Directors, executive)
ENABLER – INFORMÁTICA, S.A. (Member of the Board of Directors, non-executive)
EXIT TRAVEL – AGÊNCIA DE VIAGENS E TURISMO ONLINE, S.A. (Chairman of the Board of Directors, executive)
JAUJA, SGPS, S.A. – (Chairman of the Board of Directors, executive)
KPNQWEST PORTUGAL – TELECOMUNICAÇÕES, S.A. – (Managing Director)
MIAUGER – ORGANIZAÇÃO E GESTÃO DE LEILÕES ELECTRÓNICOS, SA (Chairman of the Board of Directors, non-executive)
MODELO CONTINENTE, SGPS, SA (Member of the Board of Directors, non-executive)
NORIEMA, SGPS, S.A. – (Chairman of the Board of Directors, executive)
NOVIS TELECOM, S.A. (Member of the Board of Directors, executive, CEO)
OPTIMUS – TELECOMUNICAÇÕES S.A. (Member of the Board of Directors, non-executive)
PÚBLICO – COMUNICAÇÃO SOCIAL, S.A. (Member of the General Council)
SONAE MATRIX MULTIMÉDIA, SGPS, S.A. (Member of the Board of Directors, executive)
SONAE TELECOM, SGPS, S.A. (Member of the Board of Directors)
SONAE COM - SISTEMAS DE INFORMAÇÃO, SGPS, S.A. (Member of the Board of Directors, executive)
WE DO CONSULTING – SISTEMAS DE INFORMAÇÃO, S.A. (Member of the Board of Directors, non-executive)

4. Social Responsibility Report

Sonaecom is committed to Social Responsibility and assumes these obligations as an important value of the Company in the materialization of Sonaecom's corporate conscious. This is taken as an important commitment to the community and greater awareness and a will to achieve best practices is encouraged in order to become socially responsible. In this way Sonaecom is able to care for the future

4.1. Code of Conduct

Sonaecom is committed to adhering to best practice as regards social responsibility, which we believe to be the premise under which all activities should be carried out by Sonaecom and its subsidiaries. For this reason, we strive to do more than simply perform isolated actions to support the community.

Accordingly, during 2004, a task force was created in order to begin preparing a code of ethical conduct (the 'Code of Conduct') regarding social responsibility. With this, we intend to establish the guidelines for conduct in relation to the Group's activities in order to pro-actively and effectively contribute towards sustainable development.

We are committed to completing this code of conduct, and implementing it transversally as a guiding instrument for the activities of all our main business units during 2005.

4.2. Human Resources

OUR STRENGTHS

Attraction

Over time, we have invested purposefully in the development of a "Team of Excellence", with the aim of recruiting, training, motivating and retaining the best professionals. Sonaecom has become an attractive and prestigious employer, due to this policy allowing us to create a virtuous circle in which the best attract the best.

The creation of the on-line e-recruitment facility at Sonaecom's site opened an important channel of communication with the external market, making available job opportunities and, at the same time, providing an easier way for prospective employees to send their applications.

Involvement

Sonaecom's culture encourages its employees to take an active part in the planning of their individual objectives and career paths and promotes the attainment of those objectives with enthusiasm. The aim is to develop a sense of identity and commitment to Sonaecom and its corporate objectives.

Our style of managing human resources identifies "guiding" strategies for employees to develop desirable behaviour, and at the same time promotes initiative, in accordance with our business strategy. This system is based on a policy of awarding the attainment of objectives and the contribution for the organizational success, promoting and stimulating increasingly better performance levels.

Proximity

Establishing effective communication channels is fundamental to welcome new employees, keeping them informed about the events of the Organization, and fostering dialogue between the several Sonaecom Companies. Sonaecom's Intranet offers its employees a continuous update on our business activities, leisure activities carried out between

companies, job opportunities and internal mobility. In summary, it is a space to express opinions and debate issues and seek career opportunities.

Strengthening connections among Sonaecom employees, promoting the concept of a Unified Team by organizing and encouraging sports, cultural and social events, was the theme for the plan of activities of the Employees Forum throughout 2004. Under the scope of this program, several Sonaecom activities were carried out amongst which we would like to highlight bowling, tennis and football tournaments and kite-surf and photography courses.

Sonaecom invests heavily in the development and training of its employees. There is a strong concern for the creation of internal opportunities, the acquisition and the development of certain key-competences for employees in relation to their own areas of interest. This strategy is clearly the recognition of the potential capacities of our employees. These are the priorities we recognize in the management of human resources that allow us to achieve the processes and products of excellence of which we are so proud.

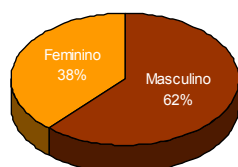
Human Resources in 2004

As at 31 December 2004, Sonaecom had a total of 2,309 employees with an average age of 33 years. Sonaecom balances youth, experience and qualification, with a team of employees with predominantly higher education (64%) capable of responding with professionalism, creativity and commitment to the challenges of the market.

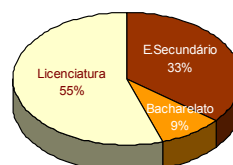
Concerned with the continuous motivation of its team, the Management of Sonaecom canvassed the opinion of its employees through a Social Environment Study. As a consequence of this study and in order to encourage participation, communication and sharing of information, several workgroups were created in order to propose new and better solutions for our organization.

We have invested in a continuous policy of quality training for Sonaecom staff, especially regarding MBAs. In this respect, 2004 was a year marked essentially by the strong investment in professional development and the creation of a cohesive team spirit.

Employees distribution according to sex
(male/female)



Employees distribution according to academic qualifications



4.3. The Environment

Sonaecom is aware of its responsibility towards the construction of a future in which Sustainable Development is one of the reference values. The environment being one of the main foundations of sustainable development, Sonaecom clearly assumed Environmental Management as a strategic factor of creation of value and competitiveness.

During 2004 we were able to consolidate the Environmental Management System (EMS), which has been certified by APCER since 2003, according to the requirements of the ISO 14001: 1999 Standard. Sonaecom's EMS encompasses the following subsidiaries: Optimus, Optimus Towering, Novis, Mainroad, WeDo Consulting, Público, publico.pt, XS, Digitmarket, Clix and Rádio Nova.

Of the several activities carried out in 2004, some of the most important were:

- Redefining assessment and management processes for environmental activities, namely identifying and assessing environmental impacts and environmental laws.
- Developing systems to monitor and control environmental processes, namely monitoring indicators and controlling non-conformities.
- Developing communication means with the aim of involving and making people aware of the need to promote a more active environmental behavior, namely on the part of our:
 - employees, by distributing Ecoreport – an email newsletter, and
 - suppliers, by making available at our site environmental information by type of supplier with influence on environmental impacts.
- Optimus signed a contract with Ecopilhas to safeguard the correct disposal of mobile phone batteries at the end of their life cycle.
- Optimus established a collaboration protocol with the Telecommunications Institute, with the aim of publicly making available relevant information on electromagnetic radiation in mobile communications.
- Optimus maintains the effort of promoting the sharing of infrastructures with the other operators.

The accompanying audits carried out by APCER have revealed that the Environmental Management System is a dynamic and flexible element that guarantees effective answers to the needs of the companies and to the changes and dynamics of the several business areas.

The EMS Program for 2005 has objectives that promote the improvement of our environmental performance. We have foreseen the transition of the EMS to ISO 14001: 2004 Standard in 2005.

Sonaecom thus maintains its commitment of actively contributing for sustainable development through the natural evolution of its EMS.

4.4. The Community

Sonaecom believes Social Responsibility to be an important aspect of its companies' principles leading to high awareness of the need to act promptly and responsibly.

This vision that characterises Sonaecom's identity is also shared by the management structures of each of the business units that comprise the Group. Along the value chain, these several business units endeavour to contemplate Social Responsibility as a factor of guaranteed success and involvement with the several stakeholders.

As an illustration of our socially responsible actions, highlighted below are some of the projects and activities that Sonaecom has carried out and supported during 2004:

- Strategic review sessions were organized with top managers and we strengthened internal communication tools namely through Boom, our in-house magazine, the Sonaecom Intranet and the "Employee Forum";
- The launch of "Smile" – a programme that allows employees to do two days of volunteer work a year to support welfare institutions;
- The implementation of "Gil Day", an initiative to collect and reutilise toner and ink cartridges, whose total revenues were donated to the Gil Foundation;

- Cooperation with the Red Cross in a campaign for collecting clothes and with the “Telefone da Amizade” – a private welfare association of public utility for which we donated communications equipment and computers. We additionally offered the people of East Timor computer equipment and stationary under the scope of a solidarity action carried out together with the Xanana Gusmão Foundation;
- Sonaecom also contributed to the editing of the book “Special needs” – Guide to support educational services” that was offered to all the museum and relevant institutions;
- Through the sponsorship given to the Faculty of Philosophy and Science, Oporto University.

Sonaecom has also been actively participating in several actions to raise environmental awareness, namely a campaign for collection of old batteries, which aimed to make children and their families aware of the importance of recycling.

Additionally, during 2004 several projects were carried out by our various business units:

- ▣ Novis granted monetary support to the Fund for Nature’s Preservation in an amount that allowed Quercus (Portuguese Environmental Association) to buy 2000 square metres of protected land;
- ▣ Optimus entered the MonIT project, which was launched by “Instituto das Telecomunicações” and developed an academic information system via sms created for the Minerva Foundation – Culture, Education and Investigation;
- ▣ PUBLICO, under the scope of the “I Love Mil Folhas” initiative, gave over 85,000 books to welfare and pedagogical institutions, national libraries, schools and prisons, as well as to some institutions in Portuguese-Speaking African Countries (Angola, Guinea Bissau and Mozambique).

5. Appendix – Glossary of Terms

ADSL	Asymmetric Digital Subscriber Line
Central Offices	Portugal Telecom local exchanges
UMTS	Universal Mobile Telecommunications System
Mega / MBPS	Millions of Bits Per Second
GSM	Global System for Mobile Communications
GPRS	General Packet Radio Service
TV over IP	Television over IP
ADSL 2+	Asymmetric Digital Subscriber Line 2+
Gigabit Ethernet	Data transfer over Ethernet up to a speed of 1000 MBPS
VoIP	Voice over IP
FWA	Fixed Wireless Access
DWDM	Dense Wave Division Multiplexing
IP/MPLS	Internet Protocol / Multi Protocol Label Switching

II. CONSOLIDATED FINANCIAL STATEMENTS

SONAECON, S.G.P.S., S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in Euro)

ASSETS	Notes	December 2004	December 2003
NON CURRENT ASSETS:			
Tangible assets	1.c), 1.h) and 5	482.808.381	490.831.009
Intangible assets	1.d), 1.e) and 6	183.943.968	201.440.387
Goodwill	1.f) and 7	31.614.130	26.940.588
Investments in associated companies	1.b) and 3	685.669	723.685
Investments available for sale	1.g) and 8	1.207.320	5.966.093
Other non current debtors	9	3.506.749	-
Deferred tax assets	1.r) and 10	68.693.940	84.626.227
Other non current assets	1.t), 1.u) and 11	4.872.217	21.991.571
Total non current assets		<u>777.332.374</u>	<u>832.519.559</u>
CURRENT ASSETS:			
Inventories	1.j) and 12	12.827.545	8.278.703
Trade debtors	1.k) and 13	152.682.416	145.002.551
Other current debtors	1.k) and 14	11.339.437	18.008.172
Other current assets	1.t), 1.u) and 15	51.149.794	60.719.893
Cash and cash equivalents	1.l), 1.m) and 16	53.265.132	144.166.252
Total current assets		<u>281.264.324</u>	<u>376.175.571</u>
Total assets		<u>1.058.596.698</u>	<u>1.208.695.130</u>
SHAREHOLDERS' FUNDS AND LIABILITIES			
SHAREHOLDERS' FUNDS:			
Share capital	17	226.250.000	226.250.000
Reserves	1.v)	12.356.470	31.533.763
Consolidated net income/(loss) for the year		<u>18.048.373</u>	<u>(19.170.834)</u>
		<u>256.654.843</u>	<u>238.612.929</u>
Minority interests	1.a) and 18	183.919.719	164.420.927
Total Shareholders' Funds		<u>440.574.562</u>	<u>403.033.856</u>
LIABILITIES:			
NON CURRENT LIABILITIES:			
Medium and long-term loans - net of short-term portion	1.n), 1.o) and 19	305.138.566	420.458.200
Other non current creditors	20	3.425.011	39.666.666
Other non current financial liabilities	1.h) and 21	3.953.358	6.465.484
Provisions for other liabilities and charges	1.q), and 22	4.292.249	3.741.092
Other non current liabilities	1.t), 1.u) and 23	9.794.878	7.020.723
Total non current liabilities		<u>326.604.062</u>	<u>477.352.165</u>
CURRENT LIABILITIES:			
Short-term loans and other loans	1.n), 1.p) and 24	2.508.344	56.462.414
Trade creditors	25	153.049.344	137.741.395
Other current financial liabilities	1.h) and 26	4.070.891	3.227.925
Other creditors	27	17.612.868	17.631.305
Other current liabilities	1.t), 1.u) and 28	114.176.627	113.246.070
Total current liabilities		<u>291.418.074</u>	<u>328.309.109</u>
Total Shareholders' Funds and liabilities		<u>1.058.596.698</u>	<u>1.208.695.130</u>

The notes are an integral part of the consolidated financial statements at 31 December 2004 and 2003

The Chief Accountant

Patricia Maria Cruz Ribeiro da Silva

The Board

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira de Azevedo

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SONAECON, S.G.P.S., S.A. AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT BY NATURE

FOR THE YEARS AND QUARTERS ENDED AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in Euro)

	Notes	December 2004	December 2003	September to December 2004 (Not audited)	September to December 2003 (Not audited)
Operating revenues:					
Sales	29	108.049.977	106.214.013	28.964.136	33.472.596
Services rendered	29	772.109.042	731.528.331	189.513.872	187.168.076
Other operating revenues	30	6.967.530	7.109.594	2.821.960	(2.519.937)
Total operating revenues		<u>887.126.549</u>	<u>844.851.939</u>	<u>221.299.968</u>	<u>218.120.735</u>
Operating costs:					
Cost of sales	12	(106.436.514)	(111.189.573)	(30.068.652)	(47.404.068)
External supplies and services	31	(454.292.910)	(457.510.181)	(114.701.923)	(106.054.040)
Staff expenses	43	(96.374.442)	(95.134.727)	(25.749.474)	(23.936.317)
Depreciation and amortisation	5, 6 and 7	(125.197.734)	(129.392.972)	(31.726.324)	(30.993.569)
Provisions and impairment losses	1.q), 1.x) and 22	(15.851.501)	(20.879.234)	(2.140.002)	(4.125.353)
Other operating costs	1.x) and 32	(13.557.654)	(14.601.660)	(4.180.493)	149.792
Total operating costs		<u>(811.710.755)</u>	<u>(828.708.346)</u>	<u>(208.566.868)</u>	<u>(212.363.554)</u>
Net operating income/(expenses)		75.415.794	16.143.593	12.733.100	5.757.181
Gains and losses in associated companies	33	(10.473)	(432.295)	26.812	(497.009)
Other net financial income/(expenses)	1.o), 1.p), 1.w) and 33	<u>(18.421.429)</u>	<u>(23.559.924)</u>	<u>(3.180.348)</u>	<u>(7.864.255)</u>
Current income/(loss)		56.983.892	(7.848.626)	9.579.564	(2.604.083)
Income taxation	1.r) and 34	<u>(18.151.692)</u>	<u>(11.765.308)</u>	<u>(1.447.665)</u>	<u>(2.479.878)</u>
Consolidated net income/(loss) after taxes		38.832.200	(19.613.934)	8.131.899	(5.083.961)
Minority interests	1.a) and 18	<u>(20.783.827)</u>	<u>443.100</u>	<u>(3.497.820)</u>	<u>(337.431)</u>
Consolidated net income/(loss)		<u>18.048.373</u>	<u>(19.170.834)</u>	<u>4.634.079</u>	<u>(5.421.391)</u>
Earnings per share	38				
Including discontinued operations					
Basic		0,08	(0,08)	0,02	(0,02)
Diluted		0,08	(0,08)	0,02	(0,02)
Excluding discontinued operations					
Basic		0,08	(0,08)	0,02	(0,02)
Diluted		0,08	(0,08)	0,02	(0,02)

The notes are an integral part of the consolidated financial statements at 31 December 2004 and 2003

The Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

The Board

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SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES

CONSOLIDATED MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEARS ENDED AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in Euro)

	2004									
	Reserves									
	Share capital	Legal reserves	Share premium	Other reserves	Initial adjustments for IAS	Hedging reserves	Total reserves	Minority Interests	Net income/(loss)	Total
Balance at 31 December 2003	226.250.000	114.360	335.819.541	(182.577.529)	(121.380.899)	(441.710)	31.533.763	-	(19.170.834)	238.612.929
Appropriation of consolidated result of 2003	-	-	-	(19.170.834)	-	-	(19.170.834)	-	19.170.834	-
Consolidated net income/(loss) for the year ended 31 December 2004	-	-	-	-	-	-	-	-	18.048.373	18.048.373
Minority changes	-	-	-	(270.071)	-	-	(270.071)	-	-	(270.071)
Hedging reserves (Swaps)	-	-	-	-	-	72.555	72.555	-	-	72.555
Adjustments in foreign currency translation reserves and others	-	-	-	191.057	-	-	191.057	-	-	191.057
Balance at 31 December 2004	226.250.000	114.360	335.819.541	(201.827.377)	(121.380.899)	(369.155)	12.356.470	-	18.048.373	256.654.843
<u>Minority interests</u>										
Balance at 31 December 2003	-	-	-	-	-	-	-	164.420.927	-	164.420.927
New companies	-	-	-	-	-	-	-	(2.462.691)	-	(2.462.691)
Supplementary capital made by minorities	-	-	-	-	-	-	-	2.750.793	-	2.750.793
Hedging reserves (Swaps)	-	-	-	-	-	-	-	(428.328)	-	(428.328)
Minority interests on results	-	-	-	-	-	-	-	20.783.827	-	20.783.827
Minority changes and others	-	-	-	-	-	-	-	(1.144.809)	-	(1.144.809)
Balance at 31 December 2004	-	-	-	-	-	-	-	183.919.719	-	183.919.719
Total	226.250.000	114.360	335.819.541	(201.827.377)	(121.380.899)	(369.155)	12.356.470	183.919.719	18.048.373	440.574.562
<u>2003</u>										
	Reserves									
	Share capital	Legal reserves	Share premium	Other reserves	Initial adjustments for IAS	Hedging reserves	Total reserves	Minority Interests	Net income/(loss)	Total
Balance at December 31 2002	226.250.000	114.360	335.819.541	(109.217.954)	(121.380.899)	-	105.335.048	-	(74.535.849)	257.049.199
Appropriation of consolidated result of 2002	-	-	-	(74.535.849)	-	-	(74.535.849)	-	74.535.849	-
Consolidated net income/(loss) for the year ended 31 December 2003	-	-	-	-	-	-	-	-	(19.170.834)	(19.170.834)
Adjustments related to expenses in share capital increases	-	-	-	605.523	-	-	605.523	-	-	605.523
Hedging reserves (Swaps)	-	-	-	-	-	(441.710)	(441.710)	-	-	(441.710)
New companies	-	-	-	27.248	-	-	27.248	-	-	27.248
Changes in individual reserves of Retailbox	-	-	-	152.756	-	-	152.756	-	-	152.756
Adjustments in foreign currency translation reserves and others	-	-	-	390.747	-	-	390.747	-	-	390.747
Balance at 31 December 2003	226.250.000	114.360	335.819.541	(182.577.529)	(121.380.899)	(441.710)	31.533.763	-	(19.170.834)	238.612.929
<u>Minority interests</u>										
Balance at 31 December 2002	-	-	-	-	-	-	-	160.195.053	-	160.195.053
New companies	-	-	-	-	-	-	-	70.625	-	70.625
Companies no longer consolidated	-	-	-	-	-	-	-	(3.222.499)	-	(3.222.499)
Supplementary capital made by minorities	-	-	-	-	-	-	-	7.896.483	-	7.896.483
Minority changes	-	-	-	-	-	-	-	(226.437)	-	(226.437)
Minority interests on results	-	-	-	-	-	-	-	(443.100)	-	(443.100)
Others	-	-	-	-	-	-	-	150.802	-	150.802
Balance at 31 December 2003	-	-	-	-	-	-	-	164.420.927	-	164.420.927
Total	226.250.000	114.360	335.819.541	(182.577.529)	(121.380.899)	(441.710)	31.533.763	164.420.927	(19.170.834)	403.033.856

SONAECON, S.G.P.S., S.A. AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT BY FUNCTION
FOR THE YEARS ENDED AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in Euro)

	December 2004	December 2003
Sales of goods and services rendered	880.159.019	837.742.344
Cost of sales and services rendered	(601.746.484)	(590.942.613)
Gross profit	278.412.535	246.799.731
Other operating income	7.470.693	8.898.749
Distribution expenses	(125.822.031)	(151.302.758)
Administrative expenses	(71.086.358)	(64.743.682)
Other operating expenses	(13.399.708)	(23.508.447)
Operating income/(loss)	75.575.131	16.143.593
Net financing costs	(18.580.766)	(16.606.059)
Gains/(loss) from subsidiaries and associated companies	(10.473)	(7.386.160)
Unusual or rare items	-	-
Current income/(loss)	56.983.892	(7.848.626)
Current tax	(1.390.043)	(1.626.969)
Deferred tax	(16.761.649)	(10.138.339)
Income taxation on current income/(loss)	(18.151.692)	(11.765.308)
Net income/(loss) after taxation	38.832.200	(19.613.934)
Loss/(income) attributable to minority interests	(20.783.827)	443.100
Consolidated net income/(loss)	18.048.373	(19.170.834)
Earnings per share	0,08	(0,08)

The notes are an integral part of the consolidated financial statements at 31 December 2004 and 2003

The Chief Accountant

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SONAECON, S.G.P.S., S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED AT 31 DECEMBER 2004 AND 2003
(Amounts expressed in Euro)

	<u>31 December 2004</u>	<u>31 December 2003</u>
Operating activities		
Receipts from trade debtors	876.422.217	833.635.044
Payments to trade creditors	(566.545.359)	(547.418.554)
Payments to employees	(105.827.611)	(105.948.295)
Cash flows from operating activities	<u>204.049.247</u>	<u>180.268.195</u>
Payments/receipts relating to income taxes, net	(1.401.698)	(2.660.865)
Other payments/receipts relating to operating activities, net	855.586	(13.300.227)
Cash flows before extraordinary items	<u>203.503.135</u>	<u>164.307.103</u>
Receipts related to extraordinary items	-	-
Payments related to extraordinary items	-	-
Cash flows from operating activities (1)	<u>203.503.135</u>	<u>164.307.103</u>
Investing activities		
Receipts from:		
Loans granted repaid	-	-
Investments	3.481.561	408.374
Tangible assets	4.495.504	3.003.054
Intangible assets	220.351	-
Interest and similar income	2.704.609	3.460.083
Others	-	-
	10.902.025	6.871.511
Payments for:		
Investments	(12.447.747)	(1.663.000)
Tangible assets	(95.608.198)	(85.623.432)
Intangible assets	(29.271.613)	-
Others	-	-
Variation in loans granted	-	-
Cash flows from investing activities (2)	<u>(137.327.558)</u>	<u>(87.286.432)</u>
	<u>(126.425.533)</u>	<u>(80.414.921)</u>
Financing activities		
Receipts from:		
Loans obtained	100.000.000	255.067.522
Increases in share capital	-	-
Interest and similar income	-	-
	100.000.000	255.067.522
Payments for:		
Loans obtained repaid	(245.274.747)	(286.702.422)
Interest and similar expenses	(21.445.136)	(39.203.034)
Dividends	-	-
	(266.719.883)	-
Cash flows from financing activities (3)	<u>(166.719.883)</u>	<u>255.067.522</u>
Net cash Flows (4)=(1)+(2)+(3)	<u>(89.642.281)</u>	<u>338.959.704</u>
Foreign exchange results	-	(105.367)
Cash and cash equivalents at the beginning of the year	<u>(141.196.552)</u>	<u>(124.827.188)</u>
Cash and cash equivalents at end of the year	<u>51.554.271</u>	<u>137.776.069</u>

The notes are an integral part of the consolidated financial statements at 31 December 2004 and 2003

Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

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SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED AT 31 DECEMBER 2004 AND 2003
(Amounts expressed in Euro)

	<u>2004</u>	<u>2003</u>
1 - Acquisition or sale of subsidiaries or other businesses		
Companies		
a) Acquisitions		
Portais Verticais.com, S.G.P.S., S.A.	-	177.000
Enabler UK, Limited	-	644.520
Situs - Exploração de Torres de Comunicações e Sites, S.A.	-	1
Enabler UK, Limited	-	35
Myplace - Conteúdos Imobiliários na Internet, S.A.	-	16.667
Jaua, S.G.P.S., S.A.	3.289.549	-
Noriema, S.G.P.S., S.A.	7.830.517	-
b) Value paid		
Jaua, S.G.P.S., S.A.	2.747.674	-
Noriema, S.G.P.S., S.A.	7.122.392	-
In the others amounts referred on a) the cost of acquisition equals the value paid		
c) Amounts of cash and cash equivalents in the acquired subsidiary		
Portais Verticais.com, S.G.P.S., S.A.	-	636.612
Enabler UK, Limited	-	306.169
Situs - Exploração de Torres de Comunicações e Sites, S.A.	-	51.335
KPNQwest Portugal - Telecomunicações, Lda.	1.967.240	-
Jaua, S.G.P.S., S.A.	18.829	-
Noriema, S.G.P.S., S.A.	1.284.415	-
d) Amounts of other assets and liabilities acquired (sold)		
Acquisitions		
Portais Verticais.com, S.G.P.S., S.A.		
Fixed assets	-	-
Debtors - short term	-	6.051
Creditors - short term	-	699
Enabler UK, Limited		
Fixed assets	-	94.195
Debtors - short term	-	23.933
Creditors - short term	-	3.314.290
Situs - Exploração de Torres de Comunicações e Sites, S.A.		
Fixed assets	-	1.278
Debtors - short term	-	137.445
Creditors - short term	-	234.935
Enabler UK, Limited		
Fixed assets	-	85.391
Debtors - short term	-	1.607.100
Creditors - short term	-	1.945.098
Myplace - Conteúdos Imobiliários na Internet, S.A.		
Fixed assets	-	-
Debtors - short term	-	106.630
Creditors - short term	-	5.044.893
KPNQwest Portugal - Telecomunicações, Lda.		
Fixed assets	1.582.796	-
Debtors - short term	3.961.920	-
Creditors - short term	3.590.240	-
2 - Details of cash and cash equivalents		
Cash in hand	291.776	137.607
Cash at bank	7.791.039	5.154.969
Treasury applications	45.182.317	138.873.676
Overdrafts	(1.710.861)	(6.390.184)
Cash and cash equivalents	<u>51.554.271</u>	<u>137.776.068</u>
Overdrafts	1.710.861	6.390.184
Cash assets	53.265.132	144.166.252

The difference between Cash and cash equivalents at 31 December 2003 and Cash and cash equivalents at the beginning of the year ended at 31 December 2004 relates to the change of the consolidation perimeter, and can be shown as follows:

Cash and cash equivalents at 31 December 2003	137.776.068
Changes on the consolidation perimeter:	
Enabler DE	150.000
KPNQwest	1.967.240
Jaua	18.829
Noriema	1.284.415
Cash and cash equivalents at the beginning of the year ended on 31 December 2004	<u>141.196.552</u>

3 - Description of non monetary financing activities

a) Bank credit granted and not used	125.969.205	189.552.852
b) Purchase of company through the issue of shares	Not applicable	Not applicable
c) Conversion of loans into shares	Not applicable	Not applicable

4 - Cash flow by segments

Activity	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Net cash flows
Mobile network	170.961.024	(103.636.634)	(115.955.203)	(48.630.813)
Fixed network and Internet	68.777.329	(22.148.169)	(47.590.142)	(960.982)
Multimedia	3.976.309	(556.451)	(2.927.353)	492.505
Information Systems	3.004.726	(1.744.601)	(55.389)	1.204.736
Others	(43.216.253)	1.660.323	(191.796)	(41.747.727)
	<u>203.503.135</u>	<u>(126.425.533)</u>	<u>(166.719.883)</u>	<u>(89.642.281)</u>

Fixed network cash flows includes amounts related to Novis internet activity and other activities, which as a contribution to the total are not significant.

5 - Other information

Other acquisitions and sales of shares in subsidiaries and associated companies

Acquisitions

Enabler & Retail Consult	150.000	-
Retailbox BV	1.500.000	-
Enabler UK	739.685	-

Sales

Sociedade Independente de Radiodifusão Sonora	-	562.500
Investimento Directo***)	4.774.116	-
Retailbox BV	104.661	-

Share capital increases

Enabler Brasil	121.596	-
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The amounts referred with (***) were parcial received.

The notes are an integral part of the consolidated financial statements at 31 December 2004 and 2003

Chief Accountant

Patrícia Maria Cruz Ribeiro da Silva

The Board of Directors

Belmiro Mendes de Azevedo

Duarte Paulo Teixeira Azevedo

António Castelo Branco Borges

António José Santos Silva Casanova

David Graham Shenton Bain

George Christopher Lawrie

Jean-François René Pontal

Luis Filipe Campos Dias de Castro Reis

Richard Henry O'Toole

Notes to the consolidated financial statements

Notes to the consolidated financial statements at 31 December 2004 and 2003

(Amounts expressed in Euro)

SONAECOM, S.G.P.S., S.A. (hereinafter referred to as “the Company” or “Sonaecom”) was established on 6 June 1988 under the name Sonae – Tecnologias de Informação, S.A. and has its head office at Lugar de Espido, Via Norte, Maia – Portugal. It is the parent company of the group of companies listed in Notes 2 and 3 (“the Group”).

Pargeste, S.G.P.S., S.A.’s subsidiaries in the communications and information technology area were transferred to the Company through a demerger-merger process, executed by public deed dated 30 September 1997.

On 3 November 1999 the Company’s share capital was increased, its articles of association were modified and its name was changed to Sonae.com, S.G.P.S., S.A.. Since then the Company’s corporate object has been the management of investments in other companies. Also on 3 November 1999, the company’s share capital was re-denominated to Euro, being represented by one hundred and fifty million shares with a nominal value of 1 Euro each.

On 1 June 2000, the company carried out a Combined Share Offer, involving the following:

- A Retail Share Offer of 5,430,000 shares, representing 3.62% of the share capital, made in the domestic market and aimed at: (i) employees of the Sonae Group; (ii) customers of the companies controlled by Sonaecom; and (iii) the general public.
- An Institutional Offering for sale of 26,048,261 shares, representing 17.37% of the share capital, aimed at domestic and foreign institutional investors.

In addition to the Combined Share Offer, the Company’s share capital was increased under the terms explained below. The new shares were fully subscribed for and paid up by Sonae, S.G.P.S., S.A. (a shareholder of Sonaecom, hereinafter referred to as Sonae). The capital increase was subscribed for and paid up on the date the price of the Combined Share Offer was determined, and paid up in cash, 31,000,000 new ordinary shares of 1 Euro each being issued. The subscription price for the new shares was the same as that fixed for the sale of shares in the aforementioned Combined Share Offer, which was Euro 10.

In addition, Sonae sold 4,721,739 Sonaecom shares under an option granted to the banks leading the Institutional Offer for Sale and 1,507,865 shares to Sonae Group managers and to the former owners of the companies acquired by Sonaecom.

By decision of the Shareholders’ General Meeting held on 17 June 2002, Sonaecom’s share capital was increased from Euro 181,000,000 to Euro 226,250,000 by public subscription reserved for the existing shareholders, 45,250,000 new shares of 1 Euro each having been fully subscribed for and paid up at the price of Euro 2.25 per share.

On 30 April 2003 the Company's name was changed, by public deed, to SONAECOM, S.G.P.S., S.A..

The Group's business consists essentially of:

- Mobile telecommunications operations
- Fixed telecommunications operations and Internet
- Multimedia
- Information systems consultancy

The Group operates, essentially, in Portugal, with some subsidiaries (Information systems companies) in Brazil, United Kingdom, Holland and Germany.

Since 1 January 2001 all Group companies based in the Euro zone have adopted the Euro as their base currency for processing, systems and accounting.

The consolidated financial statements are also presented in Euro and the transactions in foreign exchange are included in accordance with the accounting policies detailed below.

1. Basis of presentation

The accompanying consolidated financial statements have been prepared on a going concern basis, based on the accounting records of the companies included in the consolidation (Notes 2 and 3) maintained in accordance with generally accepted accounting principles in Portugal, adjusted during the consolidation process so that the consolidated financial statements conform with International Financial Reporting Standards ("IAS/IFRS") issued by the International Accounting Standards Board ("IASB"). Sonaecom adopted "IAS/ IFRS" for the first time according to SIC 8 (First time adoption of IAS/ IFRS) on 1 January 2003.

Certain accounting principles and policies used in the preparation of the attached consolidated financial statements, prepared in accordance with IAS/IFRS, differ from those used to prepare consolidated financial statements in accordance with generally accepted accounting principles in Portugal, namely the non-recognition of intangible assets relating to subscriber acquisition costs, start-up expenses, research and development expenses and the write-back of goodwill as an asset which, as from 1 January 2001, was recorded directly under the caption of "Reserves".

Sonaecom adopted, in advance and with effect from 1 January 2004, IFRS 2 – "Share – based Payments", related to the recognition of shares and share options plans.

Sonaecom decided to adopt, with effect from 1 January 2004, IFRS 3 – "Business Combinations", and accordingly has stopped the amortisation of goodwill generated in relation to the acquisition of financial investments and has performed the necessary impairment tests pursuant to the new version of IAS 36.

Under the terms of IFRS 5, on 31 December 2003, the shareholding in Investimento Directo, previously classified as available for sale in current assets, was reclassified to non-current assets.

In addition, Sonaecom decided to adopt the new version of IAS 1, and, consequently, decided to reclassify, on 31 December 2003, the balances of minority interests to “Shareholders’ funds”.

On 31 December 2004, Sonaecom changed the accounting treatment of costs relating to up-front fees of arranging and setting-up of bank financings. These costs are now treated as a deduction from the nominal debt and are expensed over the term of the financing, based on the effective interest rate (“amortised cost”), in accordance with the terms of IAS 18 e 39 (Notes 11 and 19).

Main accounting policies

The main accounting policies used in the preparation of the attached consolidated financial statements were as follows:

a) Investments in Group companies

Investments in companies in which the Group has direct or indirect voting rights at Shareholders’ General Meetings, in excess of 50%, or in which it has control over the financial and operating policies (definition of control used by the Group) were fully consolidated in the attached consolidated financial statements. Third party participations in the shareholders’ equity and net results of those companies are reflected separately in the consolidated balance sheet and in the consolidated statement of profit and loss, respectively, under the caption “Minority interests”.

When losses attributable to minority shareholders exceed minority interests in shareholders’ funds of the subsidiaries, the Group absorbs the excess together with any additional losses, except where the minority shareholders have the obligation and are able to cover those losses. If subsidiaries subsequently report profits, the Group appropriates all the profits until the amount of the minority interests in the losses absorbed by the Group is recovered.

When acquiring subsidiaries, the purchase method is used. The results of subsidiaries bought or sold during the year are included in the statement of profit and loss as from the date of acquisition or up to the date of sale. Intra Group transactions, balances and dividends are eliminated.

The fully consolidated companies are listed in Note 2.

b) Investments in associated companies

Investments in associated companies (generally investments representing between 20% and 50% of a company’s share capital) are recorded using the equity method.

In accordance with the equity method, investments are adjusted annually by an amount corresponding to the Group’s share of the net results of associated companies, against a corresponding entry to gain or loss for the year, and by the amount of dividends received, as well as by other changes in the equity of the associated companies, which are recorded by corresponding entry to the caption “Reserves”.

An assessment of the investments in associated companies is performed annually, with the aim of detecting possible impairment situations.

When the Group's share of accumulated losses of an associated company exceeds the book value of the investment, the investment is recorded at nil value, except when the Group has assumed commitments to the associated company, in which case a provision is recorded for that purpose under the caption "Provisions for other liabilities and charges".

Investments in associated companies are listed in Note 3.

c) Tangible assets

Tangible assets are recorded at cost less accumulated depreciation and less estimated accumulated impairment losses.

Depreciation is provided on a straight-line monthly basis as from the date the assets are brought into use, by corresponding charge to the statement of profit and loss caption "Depreciation and amortisation".

Impairment losses detected in the market value of tangible assets are recorded in the year in which they arise, by corresponding charge to the caption "Other operating costs" of the statement of profit and loss.

The annual depreciation rates used correspond to the estimated useful life of the assets, which are as follows:

	<u>Years of useful life</u>
Buildings	50
Other constructions	10
Network	10-20
Other plant and machinery	8
Vehicles	4
Fixtures and fittings	3-10
Tools	5-8
Other tangible assets	4-8

Current maintenance and repair costs of fixed assets are recorded as costs in the year in which they occur. Improvements of significant amount, which increase the estimated useful life of the assets, are capitalised and depreciated in accordance with the remaining estimated useful life of the corresponding assets.

Work in progress corresponds to fixed assets still in the construction/development stage which are recorded at cost. These assets are depreciated as from the moment they are completed or they are in condition to be used.

d) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and less estimated impairment losses. Intangible assets are only recognised if it is likely that they will bring future economic benefit to the Group, if the Group controls them and if their value can be reasonably measured.

Intangible assets correspond, essentially, to software (excluding that included in tangible assets – telecommunication sites' software), industrial property and costs incurred with the mobile network operator licenses (GSM and UMTS) and the fixed network operator licences.

Amortisation is provided on a straight-line monthly basis, over the estimated useful life of the assets (three years) as from the month in which the corresponding expenses are incurred. Mobile and fixed network operator licences are amortised over the period for which they were granted (15 years). The UMTS license is being amortised for an 11 year period, which corresponds to the period between the commercial launch date and the maturity of the license.

Amortisation for the period is recorded in the statement of profit and loss under the caption "Depreciation and amortisation".

e) Brands and patents

Brands and patents are recorded at acquisition cost and are amortised on a straight-line basis over their respective estimated useful life.

f) Goodwill

Differences between the cost of investments in subsidiaries and associated companies and the amount attributed to the fair value of their identifiable assets and liabilities at the time of their acquisition, when positive, are recorded under the caption "Goodwill", and, when negative, are recorded directly in the statement of profit and loss. Until 1 January 2004, "Goodwill" was amortised over the estimated period of recovery of the investments, usually ten years, and the amortisation was recorded in the statement of profit and loss under the caption "Depreciation and amortisation". Since 1 January 2004 and in accordance with the IFRS 3 – "Business Combinations", the Group has stopped the amortization of the "Goodwill". Impairment losses of goodwill are recorded in the statement of profit and loss for the period under the caption "Other operating costs".

g) Investments

In accordance with IAS 39, the financial instruments may be classified as follows:

- “Investments held-to-maturity” – non-derivative financial assets with fixed or variable repayments, with a pre-determined maturity which the Board of Directors intends to retain until their respective maturity date;
- “Investments at fair value through profit or loss” – financial assets or liabilities that are held with the purpose of obtaining short-term capital gains (including all derivative instruments that are not part of hedge operations);
- “Loans and receivables” – non-derivative financial assets with a fixed or variable repayment, which are not quoted instruments, on markets with reasonable liquidity and that are not registered as “Investments at fair value through profit or loss” or as “Investments available for sale”;
- “Investments available for sale” – non-derivative financial assets that are designated as available for sale or those that do not fit into any of the previous categories.

“Investments held-to-maturity” are registered as non-current investments, except if their maturity falls within less than 12 months of the balance sheet date. “Investments at fair value through profit or loss” are registered as current investments. “Investments available for sale” are registered as non-current investments.

All purchases and sales of these investments are recognised at the date of signature of the respective contracts, regardless of the specific payment dates.

Investments are initially recorded at their acquisition value, which is the amount paid at the acquisition date, which corresponds to the respective fair value at that date, including transaction costs.

After the initial recognition, the “Investments at fair value through profit or loss” and the “Investments available for sale” are revaluated at their respective fair value, with reference to their market value at the balance sheet date, without deduction of any transaction costs that may arise on the sale.

Gains and losses derived from changes in the fair value of “Investments available for sale” are recognised in Shareholders’ Funds, under the heading “Fair value reserve”. At the moment these investments are sold or disposed off in any other way, or whenever the fair value of the investment is lower than the respective acquisition cost (such situation is considered result in an impairment loss), the cumulative gain or loss is registered in the Profit and loss statement.

Gains and losses derived from changes in the fair value of “Investments at fair value through profit or loss” are registered in the profit and loss statement.

“Investments held-to-maturity” are registered at amortised cost, calculated using the effective interest rate, net of capital repayments and interest received.

Investments in Group companies excluded from the consolidation are recorded at the lower of their respective cost of acquisition and fair value.

h) Finance leases

The lease contracts are classified as (i) financial leases, if, in substance, all risks and rewards associated with the possession of the leased asset are transferred by the lease contract and as (ii) operational leases, if, in substance, there is no transfer of risks and rewards associated with the possession of the leased asset.

The lease contracts are classified as financial or operational in accordance with the substance and not with the form of the respective contracts.

Fixed assets acquired under finance lease contracts and the related liabilities are recorded in accordance with the financial method. Under this method the tangible assets, the corresponding accumulated depreciation and liabilities are recorded in accordance with the contractual financial plan. In addition, interest included in lease payments and depreciation of the tangible assets is recognised as expenses in the statement of profit and loss for the year to which they relate.

i) Operational leasing (long term rentals)

Leases are classified as financial whenever the terms of the respective contract indicate that a substantial transfer of risks and costs to the Company has occurred. All other leases are classified as Operational leasing.

Assets under long term rental contracts are recorded in accordance with the operational lease method. In accordance with this method, the rents paid are recognised as an expense, over the rental period.

j) Inventories

Inventories are stated at their acquisition cost net of eventual impairment losses.

Accumulated inventory impairment losses reflect the difference between the acquisition cost and the realisable value of inventories, as well as the estimated impairment losses due to low turnover, obsolescence and deterioration (Note 22).

k) Trade and other current debtors

Trade debtors and other current debtors are recorded at their nominal value less impairment losses, reflecting their net realisable value.

l) Negotiable securities

Negotiable securities and other treasury applications which mature in more than three months are stated at fair value, and recorded under caption “Other current assets”.

m) Cash and cash equivalents

Amounts included under the caption “Cash and cash equivalents” correspond to amounts held in cash, demand and term bank deposits and other treasury applications which mature in less than three months, and where the risk of any change in value is insignificant.

n) Loans

Loans are recorded as liabilities at their fair value. Any expenses incurred in setting up loans are recorded as an “amortised cost” (recognised as a deduction to the nominal debt during the period of the financing and based on the effective interest rate).

o) Financial expenses relating to loans obtained

Financial expenses relating to loans obtained are generally recognised as expenses at the time they are incurred. Financial expenses relating to loans obtained directly for the acquisition, construction or production of fixed assets are capitalised as part of the cost of the assets. These expenses are capitalised starting from the time of preparation for the construction or development of the asset. The capitalization is interrupted when the assets are operating or at the end of the production or construction phases or when the associated project is suspended.

p) Derivatives

The Group only uses derivatives in the management of its financial risks to hedge against such risks. The Group does not use derivatives for trading (speculation) purposes.

The cash flow hedges used by the Group are related to interest rate swap operations to hedge against interest rate risks on loans obtained. The amounts, interest payment dates and repayment dates of the underlying interest rate swaps are identical in all respects to the conditions established for the contracted loans. Changes in the fair value of cash flow hedges are recorded in assets or liabilities, against the corresponding entry under the caption “Hedging reserves” in shareholders’ funds.

In the cases where the hedge instrument is not effective, the amounts derived from the adjustments to fair value are recorded directly in the profit and loss statement.

q) Provisions and contingencies

Provisions are recognised when, and only when, the Group has a present obligation (either legal or implicit) resulting from a past event, the resolution of which is likely to involve the disbursement of funds by an amount that can be reasonably estimated. Provisions are reviewed at the balance sheet date and adjusted to reflect the best estimate at that date.

Provisions for restructurings are only registered if the Group has a detailed plan and if that plan was already communicated to the parties involved.

During 2004, the provisions for other liabilities and charges, outstanding as of 31 December 2004 and 2003, were reclassified from current to non-current liabilities.

Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes, provided that the possibility of a cash outflow affecting future economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements but are disclosed in the notes when future economic benefits are likely to occur.

r) Income tax

Income tax for the year is determined based on the taxable results of companies included in the consolidation and takes into consideration deferred taxation.

Current income tax is determined based on the taxable results of the companies included in the consolidation, in accordance with tax regulations in force in the location of the head office of each Group company.

Deferred taxes are calculated using the liability method and reflect the timing differences between the amount of assets and liabilities for accounting purposes and the respective amounts for tax purposes.

Deferred tax assets are only recognised when there is reasonable expectation that sufficient taxable profits will arise in the future to allow such deferred tax assets to be used. At the end of each year a review is made of the recorded and unrecorded deferred tax assets and they are reduced whenever their realisation ceases to be probable, or recorded if it is probable that taxable profits will be generated in the future to enable them to be recovered (Note 10).

Deferred taxes are calculated with the tax rate that is expected to be in effect at the time the asset or liability is used.

Whenever deferred taxes derive from assets or liabilities directly registered in Shareholders' funds, its recording is also made in Shareholders' funds. In any other situation, deferred taxes are always registered in the profit and loss statement.

s) Government subsidies

Subsidies awarded to finance personnel training are recognised as income during the period where the Company incurs the associated costs and are included in the profit and loss statement as a deduction to such costs.

Subsidies awarded to finance investments in tangible assets are registered as deferred income and are included in the profit and loss statement over the estimated useful life of the corresponding assets.

t) Accruals basis and revenue recognition

Expenses and income are recorded in the year to which they relate, regardless of their date of payment or receipt. Estimated amounts are used where actual amounts are not known.

Expenses and income relating to the current period, where payment and receipt will occur in future periods, as well as payments and receipts in the current period but which relate to future periods, the amounts corresponding to each period being included in such periods, are reflected in the captions of “Other current assets” and “Other current liabilities” (Notes 15 and 28).

Revenue from telecommunications services is recognised in the period in which it occurs. Such services are invoiced on a monthly basis. Revenues not yet invoiced, from the last invoicing cycle to the end of the month, are estimated and recorded based on actual traffic. Differences between the estimated and actual amounts, which are usually not material, are recorded in the following period.

Sales revenues are recognised in the consolidated profit and loss statement when the significant risks and benefits associated with ownership of the assets are transferred to the buyer and the amount of the corresponding revenue can be reasonably quantified. Sales are recognised net of taxes and discounts.

The income related to pre-paid cards is recognised whenever the minutes are used. At the end of each period the minutes still to be used are estimated and the value of income associated with those minutes is deferred.

Non-current financial assets and liabilities are recorded at fair value and, in each period, the financial actualisation to the fair value is recorded in the statement of profit and loss under the captions “Financial income” and “Financial expenses”.

Dividends are recognised when the right of the shareholders to receive such amounts is appropriately established and communicated.

u) Balance sheet classification

Assets and liabilities due in more than one year from the date of the balance sheet are classified, respectively, as non-current assets and non-current liabilities.

In addition, considering their nature, the deferred tax assets and the provisions for other liabilities and charges, are classified as non current assets and liabilities (Notes 10 and 22).

v) Legal reserve

Portuguese commercial legislation requires that at least 5% of annual net profit must be appropriated to a legal reserve, until the reserve reaches at least 20% of the share capital. This reserve is not distributable, except in the case of liquidation of the company, but may be used to absorb losses, after all the other reserves are exhausted, or to increase the share capital.

w) Foreign currency

All assets and liabilities expressed in foreign currency were converted into Euro using the exchange rates in force on the balance sheet date.

Favourable and unfavourable foreign exchange differences resulting from changes in the rates in force at transaction date and those in force at the date of collection, payment or at the balance sheet date are recorded as income and expenses in the consolidated profit and loss statement of the year. In 2004, this recording begun to be made by the net amount between costs and income.

Entities operating abroad with organisational, economic and financial autonomy are treated as foreign entities.

Assets and liabilities in the financial statements of foreign entities are converted into Euro using the rates of exchange in force on the balance sheet date and expenses and income in such financial statements are converted into Euro using the average rates of exchange for the period. The resulting exchange differences are recorded in the shareholders' funds caption "Other Reserves".

Goodwill and adjustments to fair value generated in acquisitions are converted into Euro on the balance sheet date.

The following rates were used for conversion into Euro of the accounts of foreign subsidiaries and associated companies:

	2004		2003	
	<u>31.12.04</u>	<u>Average</u>	<u>31.12.03</u>	<u>Average</u>
Pounds Sterling	1.41824	1.47459	1.41884	1.44620
Brazilian Real	0.27665	0.27526	0.27288	0.28918

x) Assets impairment

Impairment tests are performed at the date of each balance sheet and whenever an event or change of circumstances indicates that the recorded value of an asset may not be recoverable. Whenever the book value of an asset is greater than the amount recoverable, an impairment loss is recognised and recorded in the statement of profit and loss under the caption “Other operating costs”, in the case of fixed assets and goodwill, and under the caption “Provisions and impairment losses”, in relation to the other assets. The amount recoverable is the greater of the net sales price and the value of use. Net sales price is the amount obtainable upon sale of an asset in a transaction within the capability of the parties involved, less the costs directly related to the sale. The value of use is the present value of the estimated future cash flows expected to result from the continued use of the asset and its sale at the end of its useful life. The recoverable value is estimated for each asset individually or, if this is not possible, for the cash-generating unit to which the asset belongs.

y) Deferred Performance Bonus Plan

As from 1 January 2004, Sonaecom has opted for early adoption of IFRS 2 – “Share-based Payments”, which relates to the Accounting Treatment of Share and Share Option Plans.

Under IFRS 2, when the settlement of plans established by the Group involves the delivery of Sonaecom’s own shares, the estimated responsibility is recorded, as a credit entry, under the caption “Reserves”, within the heading “Shareholders’ funds” and is charged as an expense under the caption “Staff expenses” in the profit and loss statement.

The quantification of this responsibility is based on fair value and responsibility is recognised over the vesting period of each plan (from the award date of the plan until its vesting or settlement date). The total responsibility, at any point of time, is calculated based on the proportion of the vesting period that has “elapsed” up to the respective accounting date.

When the responsibilities associated with any plan are covered by a hedging contract, i.e., with the result that the responsibilities are replaced by a fixed amount payable to a third party and that Sonaecom is no longer the party that will deliver the Sonaecom shares at the settlement date of each plan, the above accounting treatment requires adapting, under IFRS 2, as follows:

- a) The total gross fixed amounts payable to third parties are recorded in the balance sheet as either “Other non current liabilities” or “Other current liabilities”;
- b) The part of this responsibility that has not yet been recognised in the profit and loss statement (the “unelapsed” proportion of the cost of each plan) is deferred and is recorded, in the balance sheet as either “Other non current assets” or “Other current assets”;
- c) The net effect of the entries in (a) and (b) above eliminate the original entry to “Shareholders’ funds”;
- d) In the profit and loss account statement, the “elapsed” proportion continues to be charged as an expense under the caption “Staff expenses”.

The plans that are settled by the delivery of shares of Sonae S.G.P.S, S.A. are recorded under “Provisions”, pro-rata to the respective vesting periods. When these responsibilities are covered by hedging contracts, the accounting treatment is as described above with the net effect eliminating “Provisions”, instead of “Shareholders’ funds”.

In December 2003, the Group signed hedging contracts, as a result of which, the responsibilities for delivering the Sonaecom and Sonae S.G.P.S., S.A. shares under Sonaecom’s Deferred Performance Bonus Plans were substituted by fixed amounts payable on the vesting date of each plan. At 31 December 2004, all plans were hedged and the total impact of the Deferred Performance Bonus Plans is recorded in the balance sheet as “Other current and non current assets” and “Other current and non current liabilities”. In the profit and loss account, the impact is recorded under the caption “Staff expenses”.

z) Subsequent events

Events occurring after the date of the balance sheet which provide additional information about conditions prevailing at the time of the balance sheet (adjusting events) are reflected in the consolidated financial statements. Events occurring after the balance sheet date that provide information on post-balance sheet conditions (non adjusting events), when material, are disclosed in the notes to the consolidated financial statements (Note 42).

2. Companies included in the consolidation

Group companies included in the consolidation, their head offices, main activity, shareholders and percentage of share capital held at 31 December 2004 and 2003, are as follows:

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held			
				2004		2003	
				Direct	Effective*	Direct	Effective*
Parent company: SONAECOM, S.G.P.S., S.A. ("Sonaecom")	Maia	Management of shareholdings.	-	-	-	-	-
Subsidiaries: Clixgest – Internet e Conteúdos, S.A. ("Clixgest" using the brand name "Clix")	Maia	All activities relating to information and multi- media technologies, namely Internet, contents and electronic commerce.	Sonae Matrix	56.67%	56.67%	56.67%	56.67%
Digitmarket – Sistemas de Informação, S.A. ("Digitmarket" using the brand name "Bizdirect")	Maia	Development of management platforms and commercialisation of products, services and information, with the internet as its main support.	Sonae.com Sistemas de Informação	75.1%	75.1%	75.1%	75.1%
Douro – Centro de Produções Artísticas, Lda. ("Douro")	Matosinhos	Conception and production of films, cinema, video, commercials, documentaries, sound tracks for radio and TV, consultancy, commercialisation and promotion of sales of events and artistic and cultural shows.	Sonae Matrix	(Liquidated)		100%	100%
Enabler – Informática, S.A. ("Enabler")	Maia	Rendering of services relating to the development, commercialisation and implementation of software solutions.	Retailbox	97.3%	66.25%	100%	66%
Enabler Brasil, Ltda. ("Enabler Brasil")	Curitiba- Paraná, Brazil	Commercialisation of software developed by the companies or by third parties; provision of technical consultancy services relating to software	Enabler	99.99%	66.24%	99.99%	65.99%
Enabler & Retail Consult, GmbH (Enabler Germany)	Germany	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	85%	56.31%	50%	33%
Enabler UK, Limited ("Enabler UK")	United Kingdom	Rendering of services in the area of development, commercialisation and implementation of software solutions.	Enabler	100%	66.25%	82.5%	54.45%
Exit Travel – Agência de Viagens e Turismo Online, S.A. ("Exit")	Maia	Internet travel, tourism and leisure agency.	Sonaecom Portais Verticais	75% -	75% -	- 75%	- 37.5%

* Sonaecom effective participation

Company (Commercial brand)	Head office	Main activity	Percentage of share capital held				
			Shareholder	2004		2003	
				Direct	Effective*	Direct	Effective*
Jaua, S.G.P.S., S.A. (Jaua) (a)	Lisbon	Management of shareholdings.	Novis	100%	56.67%	-	-
KPNQwest Portugal - Telecomunicações, Lda ("KPNQwest") (a)	Lisbon	Supply of internet access.	Jaua	51%	28.9%	-	-
			Noriema	49%	27.77%	-	-
Mainroad – Serviços em Tecnologias de Informação, S.A. ("Mainroad")	Maia	Rendering of consultancy services in IT areas.	Novis	100%	56.67%	100%	56.67%
Miauger – Organização e Gestão de Leilões Electrónicos, S.A. ("Miauger")	Maia	Organisation and management of electronic auctions of products and services on-line.	Sonaecom	100%	100%	100%	100%
Noriema, S.G.P.S.,S.A. ("Noriema") (a)	Lisbon	Management of shareholdings.	Novis	100%	56.67%	-	-
M3G – Edições Digitais, S.A. ("M3G")	Lisbon	Digital publishing, electronic publishing and production of Internet contents.	Público.pt	100%	99.99%	100%	99.99%
Novis Telecom, S.A. ("Novis")	Maia	Installation, maintenance and operation of information processing and telecommunications equipment, network management and supply of value-added information and services.	Sonaecom	15%	15%	15%	15%
			Sonae Matrix	41.67%	41.67%	41.67%	41.67%
Optimus – Telecomunicações, S.A. ("Optimus")	Maia	Rendering of mobile telecommunications services and the establishment, management and operation of telecommunications networks.	Sonae Telecom	46.29%	46.29%	46.29%	46.29%
Per-Mar – Sociedade de Construções, S.A. ("Per-Mar")	Maia	Purchase, sale, renting and operation of property and commercial establishments.	Optimus	100%	46.29%	100%	46.29%
Portais Verticais.com, S.G.P.S.,S.A. ("Portais Verticais")	Maia	Management of shareholdings	Sonae Matrix	(Liquidated)		100%	100%
Público – Comunicação Social, S.A. ("Público")	Oporto	Editing, composition and publication of periodical and non-periodical material.	Sonaetelecom BV	99.99%	99.99%	99.99%	99.99%
Público.pt – Serviços Digitais Multimédia, S.A. ("Público.pt")	Maia	Dissemination of goods and services in electronic format, dissemination of multimedia information and promotion of trade in a digital environment.	Público	100%	99.99%	100%	99.99%
Retailbox BV ("Retailbox")	Amsterdam	Management of shareholdings.	Sonaetelecom BV	68.09%	68.09%	66%	66%
Optimus Towering – Exploração de Torres de Telecomunicações, S.A. (ex "Optimus Towering" ex "Situs")	Maia	Implementation, installation and exploitation of towers and other sites for the placement of telecommunications equipment.	Optimus	100%	46.29%	50%	23.15%

* Sonaecom effective participation

Company (Commercial brand)	Head office	Main activity	Percentage of share capital held				
			Shareholder	2004		2003	
				Direct	Effective*	Direct	Effective*
Sonae Matrix Multimédia, S.G.P.S., S.A. ("Sonae Matrix")	Maia	Management of shareholdings in the area of multimedia trade.	Sonaecom	100%	100%	100%	100%
Sonae Telecom, S.G.P.S., S.A. ("Sonae Telecom")	Maia	Management of shareholdings in the area of mobile telecommunications.	Sonaecom	100%	100%	100%	100%
Sonae.com - Sistemas de Informação, S.G.P.S., S.A. ("Sonae.com Sistemas de Informação") Formerly -Sonae.com Ventures, S.G.P.S., SA ("Sonae.com Ventures")	Maia	Management of shareholdings in the area of corporate ventures and joint ventures.	Sonaecom	100%	100%	100%	100%
Sonaetelecom BV	Amsterdam	Management of shareholdings.	Sonaecom	100%	100%	100%	100%
We Do Consulting – Sistemas de Informação, S.A. ("We Do")	Maia	Rendering of consultancy services in the area of software, including systems integration.	Sonae.com Sistemas de Informação	100%	100%	100%	100%
Wedo do Brasil Soluções Informáticas, Ltda.	Rio de Janeiro	Commercialisation of software and hardware. Rendering of consultancy and technical assistance.	We Do	98.99%	98.99%	98.99%	98.99%
XS – Comunicação, Informação e Lazer, S.A. ("XS" using the brand name "Xis")	Maia	Editing, composition and publication of periodical and non-periodical material, through the magazine Xis.	Público	100%	99.99%	100%	99.99%

* Sonaecom effective participation

(a) These companies were included under the full consolidation method as from 1 April 2004.

All the above companies were included in the consolidation in accordance with the full consolidation method under the terms of IAS 27 (majority of voting rights, through the ownership of shares in the companies). Under the articles of association of Optimus, Sonaecom has 52.34% of the voting rights, although it has a participation of only 46.29%.

3. Investments in associated companies

At 31 December 2004 and 2003, this caption included investments in associated companies and in companies that are not consolidated, their head offices, main activities, shareholders, percentage of share capital held and book value at 31 December 2004 and 2003 was as follows:

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held				Book value	
				2004		2003		2004	2003
				Direct	Effective*	Direct	Effective*		
Associated companies:									
Net Mall, S.G.P.S., S.A. ("Net Mall")	Maia	Management of shareholdings.	Sonae.Com Sistemas de Informação	50%	50%	50%	50%	(a)	(a)
Sociedade Independente de Radiodifusão Sonora, S.A. ("S.I.R.S." using the brand name "Rádio Nova")	Oporto	Sound broadcasting. Radio station.	Público	45%	45%	45%	45%	(a)	(a)
Unipress – Centro Gráfico, Lda. ("Unipress")	V.N.Gaia	Trade and industry of graphic design and publishing	Público	40%	40%	40%	40%	685,669	661,185
Global S – Centro Comercial, Lda.	Matosinhos	Information technology services to promote and manage multimedia stores. Operation of shopping centres (Global Shop).	Global S	2.4%	0.8%	2.4%	0.8%	(b)	(b)
			Global S 24	97.5%	15.8%	97.5%	15.8%	(b)	(b)
Global S, S.G.P.S., S.A. ("Global S" using the brand name "Global Shop")	Matosinhos	Management of shareholdings.	Net Mall	64.7%	32.4%	64.7%	32.4%	(b)	(b)
Global S – Tecnologias de Informação, Lda.	Matosinhos	Development, production, commercialisation, training and services in the area of information technology, communications and security.	Global S	75%	24.3%	75%	24.3%	(b)	(b)
Global S 24, S.G.P.S., S.A.	Matosinhos	Management of shareholdings.	Global S	50%	16.2%	50%	16.2%	(b)	(b)

* Sonaecom effective participation

Company (Commercial brand)	Head office	Main activity	Shareholder	Percentage of share capital held				Book value	
				2004		2003			
				Direct	Effective*	Direct	Effective*	2004	2003
Group companies recorded at cost									
Enabler & Retail Consult, Gmbh	Germany	Rendering of services in the area of developments. Sale and implementation of information solutions.	Enabler	85%	56.11%	50%	33%	Included in consolidation (Note 2)	12,500

Group companies excluded from consolidation:

Contacto Útil – Serviços de Gestão de Atendimento a Clientes, S.A. (“Contacto Útil”)	Maia	Creation and management of customer attendance centres and call centres, including holding the respective equipment and associated infrastructures.	Optimus	(Liquidated)		100%	46.29%	-	50,000
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* Sonaecom effective participation

685,669	723,685
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(a) A full provision has been made against the holding cost of these companies.

(b) In 2004, the participations in the Global S group of companies held by Net Mall had a nil valuation.

The associated companies were included in the consolidated financial statements in accordance with the equity method, as explained in Note 1. b).

4. Changes in the Group

During the year ended at 31 December 2004 the following changes occurred in the composition of the Group:

4. a) Acquisitions

Purchaser	Subsidiary	Date	% acquired	Current % Shareholding
Enabler	Enabler & Retail Consult	Jan-04	35%	85%
Sonae Telecom BV	Retailbox BV	Feb-04	6%	68.09%
Enabler	Enabler UK	Apr-04	2.5%	85%
Novis	Jaua	Apr-04	100%	100%
Novis	Noriema	Apr-04	100%	100%
Enabler	Enabler UK	Dec-04	15%	100%

As a result of the above mentioned acquisitions, additional Goodwill of Euro 4,736,688 was recorded (Note 7).

The 15% participation increase in Enabler UK was acquired in exchange for a 2.7% participation in the capital of Enabler, through a share capital increase of this subsidiary, in the amount of Euro 660,000, totally subscribed by minorities.

At April 2004, the Group acquired KPNQwest Portugal, through the purchase of Jaua and Noriema (for the price of Euro 11,120,066), as follows:

Net assets acquired:

Fixtures and fittings	1,235,739
Other fixed assets	347,057
Inventories	89,478
Loans to the group	3,000,000
Customers	3,753,239
Other debtors	208,681
Liquidity	3,270,484
Deferred taxes	809,006
Others	21,878
Provisions for other liabilities and charges	(213,000)
Suppliers	(1,611,490)
Loans from the Group	(4,683,000)
Other creditors	(295,750)
Accrued costs	(489,246)
	5,443,076
Portion of Goodwill allocated to minorities	2,460,027
Portion of Goodwill allocated to Sonaecom	3,216,963
	5,676,990
Acquisition cost	11,120,066
Liquidity acquired	(3,270,484)
	7,849,582

4. b) Internal transactions

<u>Purchaser</u>	<u>Seller</u>	<u>Subsidiary</u>	<u>Date</u>	<u>% Acquired</u>	<u>Current % Shareholding</u>
Sonaecom	Portais Verticais	Exit	Jan-04	75%	75%
Retailbox BV	Sonae Telecom BV	Retailbox BV	Oct-04	6%	6%

As a result of the acquisition by Retailbox BV of own shares, the Group reduced, in favour of minorities, its effective participation in that company. As a result of that operation, a gain of Euro 378,352 was generated (Note 30).

4. c) Supplementary capital contributions/(repayments)

Shareholder	Subsidiary	Date	Amount	% Shareholding
Sonae.com S.I.	Digitmarket	Feb-04	2,212,436	75.1%
Optimus	Optimus Towering	Mar-04	175,750,000	100%
Optimus	Optimus Towering	Jul-04	(24,400,000)	100%
Optimus	Optimus Towering	Aug-04	6,300,000	100%
Optimus	Optimus Towering	Sep-04	(2,700,000)	100%
Optimus	Optimus Towering	Oct-04	(2,200,000)	100%
Novis	Mainroad	Oct-04	6,000,000	100%
Sonaecom	Sonae Matrix	Nov-04	78,827,180	100%
Sonaecom	Miauger	Nov-04	60,000	100%
Público	Público.pt	Nov-04	1,510,000	100%
Optimus	Optimus Towering	Nov-04	(6,700,000)	100%
Sonae Matrix	Clix	Dec-04	1,657,258	56.67%
Público.pt	M3G	Dec-04	25,000	100%
Sonaetelecom BV	Público	Dec-04	8,000,000	99.99%
Sonaecom	Sonae.com SI	Dec-04	37,952,775	100%
Sonaecom	Exit	Dec-04	150,000	75%
Público	XS	Dec-04	400,000	100%

4. d) Companies liquidated

Shareholder	Subsidiary	Date	% Shareholding
Sonae Matrix	Portais Verticais	Feb-04	100%
Sonae Matrix	Douro	Mar-04	100%
Optimus	Contacto Útil	Jun-04	100%

4. e) Capital increases

Shareholder	Subsidiary	Date	Amount	Current % Shareholding
Enabler	Enabler Brasil	May-04	407,566 Reals	99.99%

4. f) Capital reductions

Shareholder	Subsidiary	Date	Amount	% Shareholding
Sonae Matrix	Clix	Feb-04	11,600,000	56.67%
Sonae.com SI	Digitmarket	Apr-04	3,655,000	75.1%
Sonae.com SI	Digitmarket	Sep-04	2,200,000	75.1%
Sonae.com SI	Digitmarket	Nov-04	1,595,000	75.1%
Sonaecom	Novis	Nov-04	70,000,000	15%
Sonae Matrix	Novis	Nov-04	70,000,000	41.67%
Sonae Matrix	Clix	Nov-04	3,850,000	56.67%
Sonaecom	Exit	Dec-04	340,000	75%
Sonaetelecom BV	Público	Dec-04	1,664,285	99.99%
Público	Sirs	Dec-04	330,000	45%

4. g) Sales

Seller	Subsidiary	Date	% Sold	% Shareholding
Sonaetelecom BV	Retailbox BV	Mar-04	2%	70%
Sonae.com SI	Investimento Directo	Dec-04	55%	-

5. Tangible Assets

The movement in tangible assets and corresponding accumulated depreciation and impairment losses in the years ended at 31 December 2004 and 2003 was as follows:

	2004									2003
	Land	Buildings and other constructions	Plant and machinery	Vehicles	Fixtures and fittings	Tools	Other tangible assets	Work in progress	Total	Total
Gross assets										
Opening balance	1,391,593	154,974,769	550,394,743	211,986	101,042,052	1,166,385	2,046,875	27,884,034	839,112,437	799,149,294
New companies	-	-	10,390	-	6,048,429	-	652,734	-	6,711,553	34,347
Companies no longer consolidated	-	-	-	-	-	-	-	-	-	(1,272,694)
Additions	-	510,508	4,966,097	331,930	617,862	2,272	122,458	73,150,182	79,701,309	55,631,390
Disposals	-	(278,982)	(3,978,449)	(420,305)	(5,107,109)	(5,548)	(176)	(8,388,636)	(18,179,205)	(11,243,098)
Transfers and write-offs	-	16,302,977	66,551,312	6,678	17,139,778	40,572	(1,335)	(83,487,835)	16,552,147	(3,185,992)
Closing balance	1,391,593	171,509,272	617,944,093	130,289	119,741,012	1,203,681	2,820,556	9,157,745	923,898,241	839,112,437
	2004									2003
	Land	Buildings and other constructions	Plant and machinery	Vehicles	Fixtures and fittings	Tools	Other tangible assets	Work in progress	Total	Total
Accumulated depreciation and impairment losses										
Opening balance	-	55,705,401	246,263,629	117,438	44,143,553	1,050,238	1,001,169	-	348,281,428	271,698,840
New companies	-	-	-	-	4,791,676	-	304,063	-	5,095,739	30,428
Companies no longer consolidated	-	-	-	-	-	-	-	-	-	(883,246)
Depreciation for the year	-	15,710,699	60,555,427	21,130	22,209,620	88,364	581,490	-	99,166,730	97,071,384
Impairment losses in the year	-	-	-	-	(229,788)	-	-	-	(229,788)	40,000
Disposals	-	(161,183)	(2,644,193)	(28,654)	(5,021,579)	(2,945)	(175)	-	(7,858,729)	(8,340,339)
Transfers and write-offs	-	(243,500)	(211,096)	-	(2,915,838)	5,325	(411)	-	(3,365,520)	(11,335,639)
Closing balance	-	71,011,417	303,963,767	109,914	62,977,644	1,140,982	1,886,136	-	441,089,860	348,281,428
Net amount	1,391,593	100,497,855	313,980,326	20,375	56,763,368	62,699	934,420	9,157,745	482,808,381	490,831,009

The additions in the period include a group of assets, associated with the UMTS operation (Universal Mobile Telecommunications Service).

The amount under Transfers mainly corresponds to the transfer of UMTS related assets from Work in progress to other headings of Tangible assets, due to the launch of the commercial activities based on that technology by the subsidiary Optimus.

The acquisition cost of Tangible assets held by the Group under finance lease contracts amounted to Euro 12,811,241 and Euro 9,909,416 as of 31 December 2004 and as of 31 December 2003, respectively and their net book value as of those dates amounted to Euro 7,764,739 and Euro 8,525,685, respectively.

Tangible assets in progress at 31 December 2004 and 2003 were made up as follows:

	2004	2003
Development of mobile network	7,342,426	26,297,459
Development of fixed network	1,428,604	1,198,772
Others projects in progress	386,715	387,803
	<u>9,157,745</u>	<u>27,884,034</u>

At 31 December 2004 and 2003 the amounts of commitments to third parties relating to investments to be made was as follows:

	2004	2003
Technical investments	16,427,226	46,108,560
Investments in information systems	2,223,612	1,322,146
	<u>18,650,838</u>	<u>47,430,706</u>

6. Intangible assets

The movement in Intangible assets and corresponding accumulated amortisation and impairment losses in the years ended at 31 December 2004 and 2003 was as follows:

	2004					2003
	Brands and patents	Software	Other	Intangible assets in progress	Total	Total
Gross assets:						
Opening balance	4,291,030	142,247,942	-	157,052,850	303,591,822	248,219,454
New companies	-	-	-	-	-	499,319
Companies no longer consolidated	-	-	-	-	-	(1,826,713)
Additions	236,306	690,305	55,809	30,311,082	31,293,502	64,145,951
Disposals	-	(18,082)	-	(210,640)	(228,722)	-
Transfers, and write-offs	141,127,722	16,869,407	582,391	(181,011,467)	(22,431,947)	(7,446,189)
Closing balance	145,655,058	159,789,572	638,200	6,141,825	312,224,655	303,591,822
	2004					2003
	Brands and patents	Software	Other	Intangible assets in progress	Total	Total
Accumulated amortisation and impairment losses						
Opening balance	3,811,437	98,339,998	-	-	102,151,435	76,231,402
New companies	-	-	-	-	-	257,264
Companies no longer consolidated	-	-	-	-	-	(894,736)
Amortisation in the year	1,386,804	24,492,102	152,098	-	26,031,004	27,872,830
Disposals	-	(8,371)	-	-	(8,371)	-
Transfers and write-offs	(11,877)	-	118,496	-	106,619	(1,315,685)
Closing balance	5,186,364	122,823,729	270,594	-	128,280,687	102,151,435
Net amount	140,468,694	36,965,843	367,606	6,141,825	183,943,968	201,440,387

The amount under Transfers mainly corresponds to the transfer of UMTS related assets from Intangible assets in Progress to other headings of Intangible assets, due to the launch by Optimus of the commercial activities based on that technology.

As at 31 December 2004 and 2003, the Group has recorded under the heading “Intangible assets” an amount of Euro 141,616,426 and Euro 154,894,024, respectively, that correspond to investments made in the development of the UMTS network, including Euro 99,760,000 related to the license and Euro 32,694,084 related to the agreement reached in 2002 between Oni Way and the other three mobile telecommunication operators in Portugal with UMTS licenses.

Intangible assets in progress at 31 December 2004 and 2003 are made up as follows:

	<u>2004</u>	<u>2003</u>
Intangible assets:		
UMTS Licence (1)	-	133,092,912
Network development studies – UMTS (1) and GPRS (2), including capitalised financial costs (Note 1. o))	-	22,252,890
Software development in progress	6,141,825	1,124,657
Others	-	582,391
	<u>6,141,825</u>	<u>157,052,850</u>

(1) Universal Mobile Telecommunications Service

(2) General Packet Radio System

Intangible assets include interest and other financial expenses incurred, directly related to the construction of certain items of work in progress. At 31 December 2004 and 2003 such expenses amounted to Euro 12,102,510 and Euro 11,366,034, respectively. An interest capitalization rate of 4.106% was used in 2004 (3.741% in 2003), which corresponds to the average interest rate supported by the Group.

7. Goodwill

At 31 December 2004 and 2003, the movements occurred in goodwill and corresponding accumulated amortisation and impairment losses was as follows:

	<u>2004</u>	<u>2003</u>
Gross Assets		
Opening balance	59,851,238	62,458,466
New companies	4,736,688	400,690
Companies no longer consolidated	(319,748)	(796,390)
Transfers and write-offs	(32,654,048)	(2,211,528)
Closing balance	<u>31,614,130</u>	<u>59,851,238</u>
Accumulated amortisation and impairment losses:		
Opening balance	32,910,650	27,126,225
Companies no longer consolidated	(319,748)	(393,976)
Amortisation in the year	-	4,676,622
Impairment losses in the year (Note 32)	-	434,530
Transfers, disposals and write-offs	(32,590,902)	1,067,249
Closing balance	<u>-</u>	<u>32,910,650</u>
Net amount	<u><u>31,614,130</u></u>	<u><u>26,940,588</u></u>

In accordance with IFRS 3, the Group suspended the amortization of the “Goodwill” as from 1 January 2004. The accumulated amortisation of Goodwill, of Euro 32,590,902 has been deducted from the gross value of Goodwill in accordance with the new IFRS rule that requires Goodwill to be presented at its net value.

During 2004, acquisitions have generated goodwill in the amount of Euro 4,736,688 Euros (Note 4). Of this amount, Euro 60,652 was later deducted as a result of subsequent disposals (Note 4).

Goodwill at 31 December 2004 and 2003 was made up as follows:

		2004			2003		
		Date of acquisition	Gross Amount as of 31.12.2004	Gross Amount as of 31.12.2003	Depreciation and impairment losses in the year	Accumulated depreciation and impairment losses	Net Book Value
Sonaecom / SRD	Jan-98	11,996	11,996	-	9,036	2,960	2,960
Novis / IPG	May-99	6,040,703	6,040,703	-	2,818,995	3,221,708	3,221,708
Optimus / Per-Mar	Dec-99	78,755	78,755	-	31,502	47,253	47,253
Sonae BV / Público	Apr-00	45,977,115	45,977,115	-	25,977,115	20,000,000	20,000,000
Harpa / Público.pt	Apr-00	450,015	450,015	-	450,015	-	-
Público / SIRS	Apr-00	116,510	116,510	-	43,690	72,820	72,820
Sonaecom / Enabler	Jun-00	1,456,456	1,456,456	-	509,760	946,696	946,696
Novis / IPG	Jun-00	1,127,837	1,127,837	-	404,143	723,694	723,694
Miauger / Lotes	Dec-00	1,234,943	1,234,943	-	1,234,943	-	-
WeDo / Sidra	Jan-01	1,318,726	1,318,726	-	395,618	923,108	923,108
WeDo / Sidra	Jan-01	12,470	14,964	-	4,489	7,981	10,475
Novis / IPG (a)	May-01	399,038	399,038	-	106,410	292,628	292,628
Matrix / Douro	May-01	-	319,748	-	-	-	-
Público / M3G	Jul-01	269,936	269,936	-	269,936	-	-
Novis / IPG (a)	May-02	399,038	399,038	-	66,506	332,532	332,532
Matrix / Miauger	Jul-02	249,732	249,732	-	249,732	-	-
Enabler / Enabler UK	Jul-03	374,738	374,738	-	18,737	356,001	356,001
Optimus / Optimus Towering	Oct-03	10,988	10,988	-	275	10,713	10,713
Enabler / Enabler DE	Jan-04	71,647	-	-	-	71,647	-
Sonaetelecom BV / Retailbox	Feb-04	1,182,785	-	-	-	1,182,785	-
Novis / Noriema	Apr-04	2,092,375	-	-	-	2,092,375	-
Novis / Jaua	Apr-04	1,124,588	-	-	-	1,124,588	-
Enabler / Enabler UK	Apr-04	48,067	-	-	-	48,067	-
Enabler / Enabler UK	Dec-04	156,574	-	-	-	156,574	-
		64,205,032	59,851,238	-	32,590,902	31,614,130	26,940,588

SRD – Sonae Rede de Dados (currently Novis)

IPG – IP Global (company merged into Novis)

(a) – In 2001 and 2002 Novis made additional payments of Euro 399,038 each year, under the contract to purchase IP Global.

The reconciliation between the caption “Depreciation and amortisation” in the statement of profit and loss and the depreciation and amortisation performed at 31 December 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Depreciation – Tangible assets	99,166,730	97,071,384
Amortisation – Intangible assets	26,031,004	27,872,830
Amortisation – Goodwill	-	4,676,622
	<u>125,197,734</u>	<u>129,620,836</u>
Recognition of accumulated depreciation of the subsidiary Exit on the date of inclusion in the consolidation perimeter	-	(150,555)
Other adjustments	-	(77,305)
Amortisation and depreciation – Profit and loss account	<u>125,197,734</u>	<u>129,392,972</u>

8. Investments available for sale

At 31 December 2004 and 2003, this caption included investments classified as available for sale and was made up as follows:

	2004			2003		
	Gross amount	Accumulated impairment losses (Note 22)	Net amount	Gross amount	Accumulated impairment losses (Note 22)	Net amount
Altitude Software BV	-	-	-	10,000,000	(10,000,000)	-
Investimento Directo	-	-	-	6,761,267	(2,000,000)	4,761,267
Despegar.com	2,539,227	(2,539,227)	-	2,539,229	(2,539,227)	-
Altitude, SGPS, SA	1,000,000	-	1,000,000	1,000,000	-	1,000,000
Lusa – Agência de Notícias de Portugal, S.A.	197,344	-	197,344	197,344	-	197,344
SESI – Sociedade de Ensino Superior e Investigação, S.A.	146,248	(146,248)	-	146,248	(146,248)	-
NP – Notícias Portugal, Cooperativa de Utentes de Serviços de Informação, C.R.L.	7,482	-	7,482	7,482	-	7,482
Others	2,494	-	2,494	-	-	-
Non current investments held for sale	3,892,797	2,685,477	1,207,320	20,651,570	(14,685,477)	5,966,093

In December 2003, an agreement for the sale of the subsidiary Investimento Directo was signed and, as a result, this company was excluded from the consolidation perimeter and the financial investment was recorded at its fair value. The public deed in relation to the sale of this subsidiary was completed on 27 December 2004, for an amount of Euro 4,700,000 (being at a similar value to the accounting value of that investment at date of exclusion). Part of the sale price (namely Euro 1,329,706) is still to be received, of which Euro 650,294 is registered under the heading Other current debtors and Euro 679,412 Euros is registered under Other non-current debtors (amount to be received in December 2006).

9. Other non current debtors

At 31 December 2004, the Other non current debtors caption relates to amounts receivable resulting from the sale of certain fixed assets by the subsidiary Optimus and from the disposal of Investimento Directo. The payment plan is as follows:

	Amount
2006	1,640,581
2007	942,322
2008	923,846
	3,506,749

10. Deferred tax assets

Deferred tax assets at 31 December 2004 and 2003, in the amount of Euro 68,693,940 and Euro 84,626,227, respectively, result mainly from timing differences relating to tax losses carried forward and non tax deductible provisions.

The movements in deferred tax assets in the years ended 31 December 2004 and 2003 were as follows:

	2004	2003
Opening balance	84,626,227	94,549,225
New Companies (KPNQwest)	829,362	-
Impact on results:		
Tax losses carried forward	(12,340,243)	(6,648,806)
Adjustments of estimated taxable income of prior years	42,251	(219,096)
Movements in provisions not deductible for tax purposes	(1,241,609)	-
Recognition of deferred taxes, not recorded in previous years, as, at that time, the existence of future taxable profits to use them was considered to be uncertain (Optimus)	-	17,700,000
Write-off of the deferred tax assets recorded in previous years, due to impairments (Clixgest)	(2,840,847)	(4,649,650)
Impact of change in corporate tax rates	-	(15,721,314)
Others	(381,201)	(302,812)
Sub-total (Note 34)	(16,761,649)	(9,841,678)
Impact on reserves:		
Other	-	(81,320)
Closing balance	68,693,940	84,626,227

The heading Tax losses carried forward is composed mainly by the movements in the subsidiaries Optimus (Euro 14,217,664 and Euro 7,909,975, both negative, on 31 December 2004 and 2003, respectively) and Novis (Euro 2,096,879, positive, on 31 December 2004).

The heading Movements in provisions not deductible for tax purposes include Euro 1,238,569 that is related to Optimus.

At 31 December 2004 and 2003 evaluations were made of the deferred taxes to be recognised, resulting from IAS/IFRS conversion adjustments. Potential deferred tax assets were recorded to the extent that expected future taxable profits were expected to be generated against which the tax losses and deductible tax differences could be used. These assessments were made based on the business plans of the group companies involved, periodically reviewed and updated, and on tax planning opportunities available or identified.

At 31 December 2004 and 2003, a corporate tax rate of 27.5% was used to calculate the deferred tax assets.

In accordance with the tax returns and other information prepared by the companies that have registered deferred tax assets, the tax losses carried forward at 31 December 2004 were as follows:

	Optimus	We Do	Novis	KPNQwest	Público	Total	Limit date to be used
Originated in 1999	14,903,158	-	4,389,749	-	-	19,292,907	2005
Originated in 2000	4,906,216	-	52,672,299	-	-	57,578,515	2006
Originated in 2001	26,865,919	1,800,391	81,152,856	2,268,032	1,932,328	114,019,526	2007
Originated in 2002	36,863,620	3,300,611	71,576,002	-	2,635,200	114,375,433	2008
Originated in 2003	22,067,970	1,171,479	23,822,526	-	411,136	47,473,111	2009
Originated in 2004	-	168,000	15,407,033	-	-	15,575,033	2010
	<u>105,606,883</u>	<u>6,440,481</u>	<u>249,020,465</u>	<u>2,268,032</u>	<u>4,978,664</u>	<u>368,314,525</u>	

At 31 December 2004, the Group has other situations where potential deferred tax assets could result but were not recognised in the accounts, as follows:

Tax losses (including those from companies referred to in the table above, in relation to which no deferred tax assets were recorded)	85,905,735
Temporary differences (mainly provisions not accepted for tax purposes)	23,813,141
Adjustments on conversion to IAS/IFRS	11,536,360
Temporary difference between the tax and accounting value of assets	8,582,739
	<u>129,837,975</u>

During 2004, the effective rate used for calculating the deferred tax assets was 29.41%:

Earning before taxes	56,983,892
Deferred taxes (27.5%)	15,670,570
Deferred taxes not recognised in individual accounts and resulting from consolidation adjustments	(1,971,940)
Adjustments to taxable income of the prior year	409,321
Write-off of deferred tax assets recorded in previous years (Clixgest)	2,840,847
Provisions not deductible for tax purposes	2,557,249
Other adjustments to taxable income of 2004	(2,744,398)
Deferred taxes recorded in the year	16,761,649
Effective tax rate	29.41%

In accordance with current tax legislation in Portugal, the Tax Authorities may review the Company's tax returns, as well as those of subsidiary companies, during the subsequent four years (ten years for Social Security contributions up to 31 December 2000 and five years after that date). Therefore, the tax returns for each of the financial years since 2001 could still be subject to review.

11. Other non current assets

At 31 December 2004 and 2003 this caption was mainly composed of loans and advances to Group companies, as follows:

	2004			2003		
	Gross amount	Accumulated impairment losses (Note 22)	Net amount	Gross amount	Accumulated impairment losses (Note 22)	Net amount
FINANCIAL ASSETS:						
Loans granted to companies recorded under the equity method:						
Rádio Nova	118,502	-	118,502	118,502	-	118,502
Net Mall, SGPS	841,640	-	841,640	839,140	-	839,140
	960,142	-	960,142	957,642	-	957,642
Other loans granted:						
Altitude Software, BV	-	-	-	46,239	(46,239)	-
S.E.S.I.	24,316	(24,316)	-	24,316	(24,316)	-
	24,316	(24,316)	-	70,555	(70,555)	-
Advances for the acquisition of financial investments:						
	-	-	-	1,500,000	-	1,500,000
	-	-	-	1,500,000	-	1,500,000
NON FINANCIAL ASSETS:						
Expenses capitalised on bank loans	-	-	-	16,820,956	-	16,820,956
Deferred Performance Bonus Plans (Notes 1. y) and 39)	2,362,075	-	2,362,075	2,243,022	-	2,243,022
Maxistar – Comunicações Pessoais, S.A.	1,550,000	-	1,550,000	-	-	-
Other non-current assets	-	-	-	469,951	-	469,951
	3,912,075	-	3,912,075	19,533,929	-	19,533,929
	4,896,533	(24,316)	4,872,217	22,062,126	(70,555)	21,991,571

The loans granted are recorded at their nominal value and are subject to impairment tests.

The associated companies Net Mall and Rádio Nova/SIRS are included in the consolidation under the equity method. Since the proportion of the Group in the accumulated losses of these companies is greater than the recorded value of the investment, and due to the fact that the Group committed itself in relation to the associated companies, a provision for other liabilities and charges was recorded, which covers the potential losses that could arise from the non recoverability of these loans.

The “Expenses capitalised on bank loans” refer to up-front bank fees, legal and consultancy expenses paid in the setting up of bank loans (Notes 15 and 19). On 31 December 2004, Sonaecom has changed the accounting treatment of costs derived from the arranging and setting-up of bank financings, which are now recognised as a deduction from the nominal debt and are expensed over the term of the financing, based on the effective interest rate (“amortised cost”) (Note 1. n).

The amount of Euro 1,550,000 refers to an indemnity to be received by Sonaecom from Maxistar – Comunicações, S.A. according to a decision of an Arbitration Court. The receipt of these funds is not expected to occur in the short term (Note 40).

12. Inventories

At 31 December 2004 and 2003 this caption was made up as follows:

	2004	2003
Raw materials	2,034,124	1,033,490
Merchandise	15,359,185	12,168,932
	17,393,309	13,202,422
Accumulated impairment losses on inventories (Note 22)	(4,565,764)	(4,923,719)
	<u>12,827,545</u>	<u>8,278,703</u>

The cost of goods sold in the years ended at 31 December 2004 and 2003 amounted to Euro 106,436,514 and Euro 111,189,573, respectively, and was determined as follows:

	2004	2003
Opening inventories	13,202,422	24,601,920
New Companies	105,932	-
Purchases	114,824,158	110,362,327
Inventory adjustments	(4,302,689)	(10,572,252)
Closing inventories	<u>(17,393,309)</u>	<u>(13,202,422)</u>
	<u>106,436,514</u>	<u>111,189,573</u>

The amounts recorded under the caption “Inventory adjustments” at 31 December 2004 and 2003 essentially correspond to the transfer of telecommunications terminals from the caption “Inventories” to the caption “Tangible assets”, under rental contracts signed with customers by the subsidiary Optimus.

13. Trade debtors

At 31 December 2004 and 2003 this caption was made up as follows:

	2004	2003
Current accounts:		
Mobile network	121,103,804	112,346,492
Fixed network	13,757,447	17,589,262
Information systems	8,863,945	8,830,079
Internet and multimedia	8,926,421	6,115,919
	<u>152,651,617</u>	<u>144,971,752</u>
Bills receivable	30,799	30,799
Doubtful debtors	<u>67,229,825</u>	<u>61,171,842</u>
	219,912,241	206,174,393
Accumulated impairment losses in accounts receivable (Note 22)	<u>(67,229,825)</u>	<u>(61,171,842)</u>
	<u><u>152,682,416</u></u>	<u><u>145,002,551</u></u>

The Group's exposure to credit risk is mainly related to accounts receivable arising from its operational activity. The amounts included in the balance sheet are net of cumulative doubtful debtors impairment losses that were estimated by the Group, taking into account its past experience and an assessment of the current macroeconomic environment. The Board of Directors believes that the book value of the accounts receivable does not differ significantly from its fair value.

14. Other current debtors

At 31 December 2004 and 2003 this caption was made up as follows:

	2004	2003
Other debtors	6,114,076	9,296,326
State and other public entities	4,545,808	6,121,267
Advances to suppliers	813,236	2,671,846
Accumulated impairment losses in accounts receivable (Note 22)	<u>(133,683)</u>	<u>(81,267)</u>
	<u><u>11,339,437</u></u>	<u><u>18,008,172</u></u>

At 31 December 2004 and 2003 the caption "Other debtors" correspond essentially to accounts receivables by the subsidiary Optimus, in the amounts of Euro 3,315,092 and Euro 6,148,978, and the amounts of Euro 626,974 and Euro 885,961, respectively, related to accounts receivables by Novis. At 31 December 2004, this caption also includes the amount of Euro 650,294 related to the disposal of Investimento Directo.

15. Other current assets

At 31 December 2004 and 2003 this caption was made up as follows:

	2004	2003
Invoices to be issued to clients for services rendered	21,362,011	22,105,603
Invoices to be issued to operators	13,334,045	24,243,848
Specialised work paid in advance	5,280,918	363,801
Deferred Performance Bonus Plans (Notes 1. y) and 39)	3,300,745	2,533,380
Other costs paid in advance	2,086,118	3,269,239
Rappel to be received (annual quantity discounts)	1,849,458	537,172
Prepaid rents	1,264,762	1,234,175
Maintenance contracts paid in advance	264,138	145,273
Costs of obtaining financing – short term	-	2,607,491
Works and participation in costs of agents' stores	-	517,317
Other accrued income	2,407,599	3,162,594
	<u>51,149,794</u>	<u>60,719,893</u>

16. Cash and cash equivalents

At 31 December, the detail of cash and cash equivalents was as follows:

	2004	2003
Cash	291,776	137,607
Bank deposits repayable on demand	7,791,039	5,154,969
Treasury applications	45,182,317	138,873,676
Cash and cash equivalents	53,265,132	144,166,252
Bank overdrafts (Note 24)	(1,710,861)	(6,390,184)
	<u>51,554,271</u>	<u>137,776,068</u>

The caption "Treasury applications, at 31 December 2004, includes short term treasury loans made by Sonaecom to Sonae in an amount of Euro 35,350,004 (Euro 79,650,004, in 2003), as well as short term bank deposits of Sonaecom (Euro 2,650,000) and the subsidiaries Optimus (Euro 5,450,000, in 2004 and Euro 57,410,000, in 2003)), Enabler (Euro 591,932, in 2004 and Euro 405,447 in 2003), We Do Brasil (Euro 490,381, in 2004 and Euro 218,225 in 2003), Optimus Towering (Euro 200,000), Mainroad (Euro 150,000), Público (Euro 100,000), Digitmarket (Euro 100,000) and other group companies (Euro 100,000, in 2004 and Euro 1,190,000 in 2003). The Treasury applications with Sonae are repayable on demand and bear interest at marketable rates (Note 33).

17. Share capital

At 31 December 2004 and 2003 the share capital of Sonaecom comprised of 226,250,000 ordinary bearer shares of 1 Euro each, respectively. At those dates, the shareholder structure was as follows:

	2004		2003	
	Number of shares	%	Number of shares	%
Sonae Investments BV	147,211,738	65.07%	148,250,000	65.52%
Sonae	39,362,998	17.40%	39,063,998	17.27%
Shares traded on the Portuguese Stock Exchange ("Free float")	39,674,264	17.53%	38,936,002	17.21%
Efanor Investimentos, S.G.P.S.,S.A.	1,000	0.00%	-	-
	<u>226,250,000</u>	<u>100.00%</u>	<u>226,250,000</u>	<u>100.00%</u>

18. Minority interests

Minority interests at 31 December 2004 and 2003 are made up as follows:

	2004	2003
Optimus	162,882,872	144,511,612
Novis	8,849,782	12,610,395
Optimus Towering	8,939,661	-
Mainroad	2,409,425	3,319,034
Enabler	2,885,393	1,645,988
Digitmarket	300,053	(899,536)
Enabler DE	168,654	-
Retailbox	101,618	1,455,613
Noriema	(1,588,840)	-
Jaua	(854,270)	-
Clix	(400,940)	1,342,734
Other	226,311	435,087
	<u>183,919,719</u>	<u>164,420,927</u>

19. Loans

As at 31 December 2004 and 2003, outstanding structured bank loans were as follows:

Company	Type	2004			2003		
		Limit	Amount borrowed		Limit	Amount borrowed	
			Short term	Medium and long term		Short term	Medium and long term
Optimus	European Investment Bank	324,458,200	-	324,458,200	224,458,200	-	224,458,200
Optimus	Term Loan	-	-	-	275,541,800	-	196,000,000
Optimus	Revolving Credit Facility	125,541,800	-	-	75,000,000	-	-
		<u>450,000,000</u>	<u>-</u>	<u>324,458,200</u>	<u>575,000,000</u>	<u>-</u>	<u>420,458,200</u>
	Arranging and setting-up costs			(19,319,634)			-
				<u>305,138,566</u>			<u>420,458,200</u>

On 31 December 2004, Sonaecom changed the accounting treatment for costs associated with the arranging and setting-up of bank financings, which are now recognised as a deduction from the nominal debt and are expensed over the term of the financing, based on the effective interest rate (“amortised cost”) (Notes 1 n) and 11).

On 6 August 2004, Optimus concluded the signature of a new 5 year, 450 million Euro syndicated senior debt facility (the “Facility”). This Facility refinanced the amounts outstanding under the previous project finance facility (signed in July 2003) and will be used to finance Optimus’ current and future activities, namely the deployment of its third generation mobile network and related commercial activity.

The Facility was provided by a syndicate of 12 banks including national and international banks with the latter providing 70% of the Facility.

The European Investment Bank (“EIB”) continues to participate in the Facility as a co-lender to Optimus, with an amount of approximately Euro 325 million thus increasing its participation in the financing of Optimus by Euro 100 million.

The terms and conditions of the Facility (described below in greater detail), provide Optimus with significant savings in terms of financial costs and include a set of clauses and covenants that are typical in corporate loan facilities, reflecting the improved underlying credit profile of Optimus.

Syndicated Loans

The amounts drawn under the EIB tranche are guaranteed by the syndicate of banks participating in the Facility as generally required by EIB financings.

The interest rate on the Facility is indexed to the Euribor rate and the spread is linked to the financial performance of Optimus, namely to the Net Debt to Cash EBITDA ratio (the ratio between the amount of Optimus’ net indebtedness and the earnings before interest, tax, depreciation and amortisation, or EBITDA, which is adjusted to eliminate the effect of costs

capitalised and deferred in the period as well as the effect of amortising costs deferred in previous periods). The initial spread was fixed at 75 basis points (in place until the rendering of the 2004 annual accounts) and may be reduced in the future, to a minimum of 40 basis points, in accordance with the evolution of the above mentioned ratio.

Amounts used under the EIB tranche will be repaid in two instalments (30% in June 2008 and 70% in June 2009). The revolving credit facility is to be repaid in full in June 2009. Consequently, all of the Optimus' external bank indebtedness is currently booked as Medium and Long Term Loans.

The covenants associated with the Facility are similar to those of other senior bank corporate debt facilities. In comparison with the previous project finance contracts signed by Optimus, the Facility has covenants that are significantly less restrictive and have eliminated, for example, time-restrictions on the payment of dividends and on other distributions to the shareholders and has eliminated the change in the ownership restrictions. In addition, the Facility has also allowed for the release of the share pledge that had been granted by all the shareholders of Optimus, in accordance with the terms of the previous contracts. As such, the fulfilment of the Optimus' obligations under the current finance contract is exclusively guaranteed by its activities and by its cash flow generation capabilities.

As at 31 December 2004 and 2003, the repayment schedule of Optimus' medium and long term loan was as follows:

Maturity Year	2004	2003
2006	-	31,534,365
2007	-	50,454,984
2008	97,337,460	56,761,857
2009	227,120,740	94,603,095
2010	-	119,830,587
2011	-	67,273,312
	<u>324,458,200</u>	<u>420,458,200</u>

Other Financings

In addition to the Facility, Optimus has short term credit lines to support current treasury operations in the amount of, approximately, Euro 30 million.

On these loans, interest is charged at a rate indexed to the Euribor rate of each utilisations period, which is defined by the company. The average spread on the use of funds under these facilities is, currently, approximately, 85 basis points. The negotiated limits and respective balances at 31 December 2004 are as follows:

	Negotiated limit	Amount used	
		Short term	Medium and long term
Treasury support credit lines	29,927,873	-	-

Interest Rate Risk

Optimus only uses derivatives and similar transactions as hedges for interest rate risks considered as relevant. To hedge interest rate risk, three main principles are respected in all instruments selected and used:

- For each derivative or instrument used for hedging a specific transaction, the dates in which interest rates are set and interest payments are made should be exactly the same as those in the facility / transaction which is being hedged;
- Perfect match between the base rates: the base rate used in the derivative or instrument should be exactly the same as the one in the facility / transaction which is being hedged; and
- At the start of a deal, the maximum cost of debt associated to a facility is known and limited, even in the scenario of an extreme increase or decrease of the market interest rates, and an effort is made so that such level is compliant with the company's acceptable cost of funds under its business plan.

Optimus actively monitors the interest rate evolution so as to ensure, whenever possible, that the actual weighted average interest rate it bears in its financing is below the rate considered in its business plan for its cost of external debt.

All of Optimus' borrowings are currently at variable rates and, as such, interest rate swaps and other derivatives are used as cash flow hedges of future interest payments. Interest rate swaps have the economic effect of converting the respective borrowings from floating rates to fixed rates. Under the interest rate swaps, Optimus agrees with other parties to exchange, at specified intervals (quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

As at 31 December 2004, approximately 66% of the outstanding borrowings were hedged with such instruments, in a total amount of Euro 215 million. Fixed and maximum rates, as a result of the contracts negotiated in 2003, vary from 2.63% to 3.68% and the average maturity of the hedge transactions is currently around 15 months. Of the total amount negotiated, Euro 160 million correspond to hedge transactions that will expire during 2005.

Derivative counterparties are limited to high credit quality financial institutions and it is Optimus' policy to give preference to financial institutions that form part of its financing transactions.

As a matter of policy, Optimus documents at the inception of each transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and the policies for undertaking various hedge transactions. All the hedging transactions are currently linked to the outstanding amount owed under the Facility, namely to the EIB tranche. Optimus also assesses, both at the date of negotiating the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

20. Other non current creditors

At 31 December 2004 and 2003 this caption was made up of accounts payable to fixed asset suppliers that are due in more than one year, in the amounts of Euro 3,425,011 and Euro 39,666,666, respectively.

21. Other non current financial liabilities

At 31 December 2004 and 2003, this caption was made up of accounts payable to fixed assets suppliers related to leasing contracts that are due in more than one year and loans by minority shareholders to some subsidiaries, as follows:

	2004	2003
Fixed assets suppliers - leasing	2,350,517	3,689,233
Clix (France Telecom)	1,602,841	1,343,293
Digitmarket (BPI)	-	879,131
Digitmarket (AITEC)	-	553,827
	3,953,358	6,465,484

At 31 December 2004, accounts payable to fixed assets suppliers related to leasing contracts are due as follows:

	Lease payments	Present value of lease payments
2005	4,236,314	4,070,891
2006	2,390,584	2,350,517
	6,627,169	6,421,408
Interest	(205,760)	-
	6,421,408	6,421,408
Short term liability (Note 26)	-	(4,070,891)
	6,421,408	2,350,517

22. Provisions and accumulated impairment losses

The movements in provisions and accumulated impairment losses in the year ended 31 December 2004 were as follows:

Heading	2004						
	Opening balance	New companies in the consolidation	Companies no longer consolidated	Increases	Utilisation	Decreases	Closing balance
Accumulated impairment losses on accounts receivable (Notes 13 and 14)	61,253,109	814,221	(121,731)	12,094,954	(6,384,485)	(292,560)	67,363,508
Accumulated impairment losses on inventories (Note 12)	4,923,719	21,000	-	1,357,580	(692,794)	(1,043,741)	4,565,764
Accumulated impairment losses on investments available for sale (Note 8)	14,685,477	-	-	-	(12,000,000)	-	2,685,477
Accumulated impairment losses on other non current assets (Note 11)	70,555	-	-	-	(46,239)	-	24,316
Provisions for other liabilities and charges	3,741,092	213,000	-	2,398,967	(1,678,384)	(382,426)	4,292,249
	<u>84,673,952</u>	<u>1,048,221</u>	<u>(121,731)</u>	<u>15,851,501</u>	<u>(20,801,902)</u>	<u>(1,718,727)</u>	<u>78,931,314</u>

The increase registered under provisions for other liabilities and charges derives essentially from indemnities payable to personnel, in the amount of Euro 374,000, the Deferred Performance Bonus Plans, in the amount of Euro 673,000, and from provision for restructurings, in the amount of Euro 434,000.

The use of provisions under “impairment losses on investments available for sale” is made up by Euro 10,000,000, derived from the winding-up of Altitude Software BV, and by Euro 2,000,000 as a result of the sale of Investimento Directo.

The use of provisions for other liabilities and charges derives, essentially, from the use a provision recorded by Novis, in relation to a judicial process, where an excess provision of Euro 250,000 had been considered and to the reclassification of Euro 750,743 associated with the Deferred Performance Bonus Plans to the headings of other current and non-current liabilities.

The caption “Provisions for other liabilities and charges” is made up by (1) Euro 1,347,000, that relate to the use of the equity method in the consolidation of the associated companies SIRS and Netmall, (2) Euro 560,000 for provisions for indemnities, (3) Euro 1,558,000 for outstanding legal proceedings and (4) Euro 827,000 for other risks.

23. Other non-current liabilities

This caption, in the amounts of Euro 9,794,878 and Euro 7,020,273, respectively at 31 December 2004 and 2003, corresponds to the medium and long term amount associated with the Deferred Performance Bonus Plans of the Group.

24. Short term loans and other loans

At 31 December 2004 and 2003 this caption was made up as follows:

		2004	2003
<u>Short term treasury support credit lines</u>			
Novis	CGD	-	24,590,000
Novis	BCP	-	22,106,520
Público	CGD	-	1,490,000
Público	BCP	-	1,445,000
		-	49,631,520
<u>Bank overdrafts (Note 16):</u>			
Optimus		1,580,574	4,174,480
Novis		12,183	1,351,936
Público		112,769	509,003
Others		5,335	354,765
		1,710,861	6,390,184
<u>Other loans (Note 19):</u>			
Optimus – Interest Rate Swap fair value		797,483	440,710
		2,508,344	56,462,414

The short term bank loans bear interest at market rates and were all contracted in Euro.

25. Trade creditors

At 31 December 2004 and 2003 this caption was made up as follows:

	2004	2003
Suppliers - current account	115,421,318	112,867,909
Suppliers – bills payable	467,519	-
Suppliers - invoices pending approval	2,590,238	1,904,956
Fixed assets suppliers	34,570,269	22,968,530
	153,049,344	137,741,395

26. Other current financial liabilities

At 31 December 2004, this caption includes the amount of Euro 4,070,891 (Euro 3,227,925, in 2003) related to the short term part of lease contracts (Note 21).

27. Other creditors

At 31 December 2004 and 2003 this caption was made up as follows:

	2004	2003
State and other public entities	11,049,202	10,402,623
Other creditors	6,563,666	7,228,682
	<u>17,612,868</u>	<u>17,631,305</u>

At 31 December 2004 and 2003, the caption “State and other public entities” related essentially to Taxes payables (Value added tax, Corporate income tax) from the following subsidiaries:

	2004	2003
Optimus	2,278,163	2,642,635
Enabler	1,391,359	1,836,661
WeDo	1,695,048	1,628,338
Público	984,788	1,156,497
Novis	1,213,148	526,149
Other	3,486,696	2,612,343
	<u>11,049,202</u>	<u>10,402,623</u>

28. Other current liabilities

At 31 December 2004 and 2003 this caption was made up as follows:

	2004	2003
Accrued expenses:		
Invoices to be issued by operators	28,251,622	27,796,322
Personnel costs	26,015,260	25,123,086
Commissions	9,011,992	11,619,594
Other external supplies and services	5,926,939	4,630,816
Specialised work	5,799,197	5,732,052
Advertising and promotion	4,307,844	2,175,446
Deferred Performance Bonus Plan (Note 39)	2,182,651	704,479
Maintenance and repairs	1,945,592	1,304,523
Rappel discounts (annual quantity discounts)	1,389,230	585,874
Accrued financial expenses	1,024,523	1,575,128
Other accrued expenses	4,870,534	6,867,897
	<u>90,725,384</u>	<u>88,115,217</u>
Deferred income:		
Customer advance payments (Pre-pays)	20,704,206	23,081,422
Other deferred income	2,747,037	2,049,431
	<u>23,451,243</u>	<u>25,130,853</u>
	<u>114,176,627</u>	<u>113,246,070</u>

29. Sales and services rendered

At 31 December 2004 and 2003 the caption "Sales and services rendered" was made up as follows:

	2004	2003
Mobile network	637,332,138	625,521,948
Fixed network and Internet	130,144,223	116,432,899
Multimedia	54,528,769	51,672,967
Information Systems	55,062,798	43,637,961
Other	3,091,091	476,569
	<u>880,159,019</u>	<u>837,742,344</u>

30. Other operating revenues

At 31 December 2004 and 2003 the caption “Other operating revenues” was made up as follows:

	2004	2003
Supplementary income	2,822,705	5,991,947
Operating subsidies	877,602	263,090
Other	3,267,223	854,557
	<u>6,967,530</u>	<u>7,109,594</u>

The caption “Supplementary income” includes, essentially, expenses with telecommunications infrastructures shared by Novis, which are first recorded as a cost and then invoiced to the corresponding partner operators, and with income from software utilisation rights granted by the subsidiary Optimus.

The heading “Other” includes Euro 1,700,000 associated with reductions of provisions and Euro 378,352 that refer to gains obtained in the partial sale of the participation in Retailbox BV (Note 4 b)).

31. External supplies and services

Third party supplies and services for the years ended 31 December 2004 and 2003 are made up as follows:

	2004	2003
Interconnection costs	216,971,013	187,895,440
Rental of circuits	44,704,669	42,331,000
Commissions	48,266,357	58,403,642
Advertising and publicity	34,970,428	36,467,163
Other supplies and services	109,380,443	132,412,936
	<u>454,292,910</u>	<u>457,510,181</u>

The caption “Other supplies and services” includes, essentially, specialised services, rents, products relating to the newspaper, consultancy and maintenance and repairs.

32. Other operating costs

At 31 December 2004 and 2003 the caption “Other operating costs” was made up as follows:

	2004	2003
Taxes	11,753,891	11,779,108
Impairment losses in goodwill (Note 7)	-	434,530
Losses on companies disposals	-	1,034,000
Other	1,803,763	1,354,022
	<u>13,557,654</u>	<u>14,601,660</u>

The caption “Taxes” at 31 December 2004 and 2003 includes essentially the fees paid by the subsidiary Optimus to ANACOM, calculated based on the number of its active costumers. This obligation is included in the terms of the GSM operator license granted to that subsidiary.

33. Financial results

Net financial results for the years ended 31 December 2004 and 2003 are made up as follows:

	2004	2003
Financial results related to associated companies:		
Losses on associated companies	(35,001)	(479,531)
Gains on associated companies	24,528	47,236
	(10,473)	(432,295)
Other financial results:		
Interest expense	(16,154,919)	(15,519,813)
Interest income	2,419,333	3,389,153
Impairment losses on investments available for sale and other non-current assets	-	(4,420,213)
Foreign exchange losses	(211,047)	(2,561,339)
Foreign exchange gains	373,629	2,171,218
Other financial expenses	(4,848,425)	(6,618,930)
	(18,421,429)	(23,559,924)
	(18,431,902)	(23,992,219)

The amounts under the heading “Gains on associated companies” derives from the use of the Equity method in the consolidation of Unipress (Note 3).

The amounts under the heading “Losses on associated companies” derives from the liquidation of Contacto Útil (Note 4).

Interest income includes Euro 1,166,094 (Euro 1,967,877 in 2003) relating to short-term treasury applications granted to Sonae and short term bank deposits (Note 16).

34. Income taxation

Income taxes recognised during the years ended 31 December 2004 and 2003 are made up as follows:

	2004	2003
Current tax	(1,390,043)	(1,923,630)
Deferred tax (Note 10)	(16,761,649)	(9,841,678)
	(18,151,692)	(11,765,308)

35. Related parties

During the year ended 31 December 2004, the balances and transactions with related parties mainly relate to the normal operational activity of the Group (providing communications and consultancy services) and to the granting and obtaining loans.

The balances and more significant transactions with related parties during 2004 were as follows:

Balances:	Accounts receivable	Accounts payable	Treasury applications	Loans obtained
Sonae	28,689	(146,299)	35,350,004	-
Modelo Continente				
Hipermercados, S.A.	3,861,149	(1,788,132)	-	-
France Telecom	1,251,286	(808,506)	-	2,361,549
	5,141,124	(2,742,937)	35,350,004	2,361,549
Transactions:	Sales and services rendered	Supplies and services received	Interest and similar income	Interest and similar expense
Sonae	379,875	(173,487)	1,150,340	-
Modelo Continente				
Hipermercados, S.A.	11,944,110	(611,833)	-	-
France Telecom	5,845,506	(10,353,256)	-	(71,979)
	18,169,491	(11,138,576)	1,150,340	(71,979)

36. Guarantees provided to third parties

Guarantees provided to third parties at 31 December 2004 and 2003 are as follows:

Company	Beneficiary	Description	2004	2003
Optimus	European Investment Bank	Loan	324,458,200	224,458,200
Optimus	ABN AMRO Bank, NV, BCP Investimento and European Investment Bank	Pledge of 66.67% (in 2003 was 51%) of the shares of Optimus in guarantee of a loan to that subsidiary (Note 19)	-	109,054,127
Optimus	ANACOM (a)	UMTS License	2,493,989	2,493,989
Optimus and Novis	Hewlett Packard	Finance lease contracts	793,993	1,809,203
Novis	ANACOM (a)	Fixed Network License	648,437	648,437
Clixgest	Direcção de Contribuições e Impostos (Portuguese tax authorities)	VAT reimbursements	598,000	284,607
Público	Tribunal do Trabalho de Lisboa (Lisbon Labour Court)	Execution action nr. 199A/92	271,511	271,511
Novis and Clix	Governo Civil de Lisboa (Lisbon District Civil authority)	Guarantee the fulfilment of legal obligations associated with a public contest	210,640	-
Público	Fazenda Pública Porto (Oporto Public Treasury)	Tax process nr. 3190/98	209,493	209,495
We Do	API (Portuguese Investment Agency)	Application to PRIME subsidies	184,004	-
Novis	Governo Civil de Santarém (Santarém District Civil authority)	Guarantee the fulfilment of legal obligations associated with a public contest launched	119,703	-
Novis	Câmara Municipal de Lisboa (Lisbon Municipality)	Performance bond – works	103,709	256,023
Exit	Direcção Geral do Turismo (Portuguese tourism authorities)	Guarantee the fulfilment of legal obligations included in references c), d) and e) of the point n.º 2 of article 41.º from the Decree-Law 209/97 of 13 August	99,760	-
Novis	Câmara Municipal de Coimbra (Coimbra Municipality)	Performance bond – works	32,200	-
Novis	Câmara Municipal de Braga (Braga Municipality)	Performance bond – works	45,416	-
Various	EDP	Supplies of electricity	27,278	-
Novis	Governo Civil do Porto (Porto District Civil authority)	Guarantee the fulfilment of legal obligations associated with a public contest launched	14,262	119,703
Público	Lisgráfica	Legal actions nr. 3768A and 820/95	-	131,254
Various	Others		359,265	402,761
			<u>330,669,860</u>	<u>340,139,310</u>

(a) Autoridade Nacional de Comunicações (formerly “ICP – Instituto de Comunicações de Portugal”)

37. Information by business segment

The following business segments were identified for the periods ending 31 December 2004 and 2003:

- Mobile network
- Fixed network and Internet
- Multimedia
- Information systems

The remaining activities of the Group and corporate services have been classified as unallocated under the caption “Others”.

Inter-segment transactions at 31 December 2004 and 2003 were eliminated in the consolidation process.

Due to the immateriality of the assets and transactions of the Group outside Portugal, segment information by geographical markets is not presented.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties and are mainly related to interconnection, interest on treasury applications and management fees.

Overall information by business segment at 31 December 2004 and 2003 can be summarised as follows:

	Mobile Network		Fixed Network and Internet		Multimedia		Information Systems		Other		Sub-total		Eliminations		Total	
	Dec 2004	Dec 2003	Dec 2004	Dec 2003	Dec 2004	Dec 2003	Dec 2004	Dec 2003	Dec 2004	Dec 2003	Dec 2004	Dec 2003	Dec 2004	Dec 2003	Dec 2004	Dec 2003
Revenues:																
Sales and services rendered	659,574,510	636,235,387	150,060,251	128,485,981	55,490,031	52,283,732	82,003,771	63,352,042	8,258,174	7,324,224	955,386,738	887,681,366	(75,227,719)	(49,939,022)	880,159,019	837,742,344
Other operating revenues	13,735,584	12,201,062	3,485,328	15,104,670	220,113	739,627	1,830,665	1,373,229	1,521,833	2,829,902	20,793,523	32,248,489	(13,825,993)	(25,138,895)	6,967,530	7,109,594
Total revenues	<u>673,310,094</u>	<u>648,436,449</u>	<u>153,545,579</u>	<u>143,590,651</u>	<u>55,710,144</u>	<u>53,023,359</u>	<u>83,834,436</u>	<u>64,725,271</u>	<u>9,780,007</u>	<u>10,154,126</u>	<u>976,180,260</u>	<u>919,929,856</u>	<u>(89,053,712)</u>	<u>(75,077,917)</u>	<u>887,126,549</u>	<u>844,851,939</u>
Depreciation and amortisation	(105,373,006)	(98,590,020)	(15,959,303)	(21,252,655)	(1,871,978)	(1,912,267)	(2,813,835)	(2,151,153)	(521,925)	(905,291)	(126,540,047)	(124,811,386)	1,342,313	(4,581,586)	(125,197,734)	(129,392,972)
Net operating income/(loss)	84,779,824	47,917,588	(12,241,189)	(15,877,247)	242,695	(1,427,904)	(408,233)	4,073,942	(3,733,515)	(2,583,572)	68,639,582	32,102,808	6,776,212	(15,959,215)	75,415,794	16,143,593
Net interests paid	(14,242,085)	(12,566,253)	(943,795)	(1,379,991)	(202,815)	(382,817)	(328,907)	(96,005)	1,773,872	2,128,827	(13,943,729)	(12,296,239)	208,143	165,579	(13,735,586)	(12,130,660)
Gains and losses in associated companies	(20,814)	(66,604)	-	-	-	1,622,374	-	-	11,422,734	28,025,438	11,401,920	29,581,208	(11,412,393)	(30,013,503)	(10,473)	(432,295)
Other financial results	(4,278,283)	(6,081,212)	(6,325,368)	(639,769)	21,334	(29,733)	139,134	(324,809)	(24,485,305)	(54,118,689)	(34,928,488)	(61,194,212)	30,242,646	49,764,948	(4,685,842)	(11,429,264)
Income taxation	(15,695,909)	(4,147,072)	(1,000,615)	(5,801,531)	(29,556)	(554,611)	(1,413,511)	(1,246,914)	(12,168)	(8,846)	(18,151,759)	(11,758,974)	67	(6,333)	(18,151,692)	(11,765,308)
Minority interests	-	-	-	-	-	-	-	-	-	78	-	78	(20,783,827)	443,022	(20,783,827)	443,100
Net income/(loss)	<u>50,542,733</u>	<u>25,056,447</u>	<u>(20,510,967)</u>	<u>(23,698,538)</u>	<u>31,658</u>	<u>(772,691)</u>	<u>(2,011,516)</u>	<u>2,406,214</u>	<u>(15,034,382)</u>	<u>(26,556,764)</u>	<u>13,017,526</u>	<u>(23,565,332)</u>	<u>5,030,848</u>	<u>4,394,498</u>	<u>18,048,373</u>	<u>(19,170,834)</u>
Assets:																
Fixed assets	594,366,751	612,615,143	79,508,423	79,282,119	2,646,551	4,348,124	17,143,346	23,906,157	2,530,026	5,100,497	696,195,098	725,252,040	2,171,382	(6,040,057)	698,366,479	719,211,983
Inventories	10,428,863	6,091,370	340,105	308,989	2,058,520	1,855,672	-	-	57	22,672	12,827,545	8,278,703	-	-	12,827,545	8,278,703
Financial investments and other non current ass	4,567,239	4,343,756	12,900,647	22,424,572	1,160,849	1,149,530	149,028	156,635	819,830,160	838,655,170	838,607,923	866,729,663	(831,842,717)	(838,048,314)	6,765,206	28,681,349
Other assets	254,608,656	318,529,507	46,749,143	58,856,274	11,086,968	9,852,027	34,811,838	36,534,392	93,644,731	97,233,839	440,901,335	521,006,039	(100,263,868)	(68,482,944)	340,637,467	452,523,095
	<u>863,971,509</u>	<u>941,579,776</u>	<u>139,498,318</u>	<u>160,871,954</u>	<u>16,952,888</u>	<u>17,205,353</u>	<u>52,104,212</u>	<u>60,597,184</u>	<u>914,454,974</u>	<u>941,012,178</u>	<u>1,986,981,901</u>	<u>2,121,266,445</u>	<u>(928,385,203)</u>	<u>(912,571,315)</u>	<u>1,058,596,698</u>	<u>1,208,695,130</u>
Liabilities:																
Liabilities (excluding minority interests)	541,070,996	669,182,200	(101,437,350)	(105,406,732)	19,890,962	28,174,976	36,721,257	47,433,699	72,566,330	201,616	568,812,195	639,585,760	49,210,628	166,075,515	618,022,823	805,661,274
	<u>541,070,996</u>	<u>669,182,200</u>	<u>(101,437,350)</u>	<u>(105,406,732)</u>	<u>19,890,962</u>	<u>28,174,976</u>	<u>36,721,257</u>	<u>47,433,699</u>	<u>72,566,330</u>	<u>201,616</u>	<u>568,812,195</u>	<u>639,585,760</u>	<u>49,210,628</u>	<u>166,075,515</u>	<u>618,022,823</u>	<u>805,661,274</u>

38. Earnings per share

Earnings per share, basic and diluted, are calculated by dividing the consolidated net income (Euro 18,048,373) by the average number of shares outstanding during the years ending 31 December 2004 and 2003 (226,250,000).

39. Deferred Performance Bonus Plan

In 30 June 2000, Sonaecom Group created a discretionary Deferred Performance Bonus Plan for more senior employees, based on Sonaecom options and shares and Sonae SGPS shares. The vesting occurs three years after the award date of each deferred plan, assuming that the employees are still employed by the Group. In some annual plans, beneficiaries can choose between options or shares. Options are valued using the Black Scholes option pricing model.

The Sonaecom Share and Option and Sonae SGPS Share Plans outstanding during 2004 can be summarised as follows:

	Share price at award date*	Vesting period		Exercise period		At 31 December 2004	
		Award date	Vesting date	From	To	Aggregate number of participants	Number of options /shares
Sonaecom Options							
2000 Plan	6,265	31-Mar-01	31-Mar-04	01-Apr-04	31-Mar-05	25	65.940
2001 Plan	3,014	31-Mar-02	31-Mar-05	01-Apr-05	31-Mar-06	87	595.090
2002 Plan	1,694	31-Mar-03	31-Mar-06	01-Apr-06	31-Mar-07	122	2.018.339
2003 Plan	-	-	-	-	-	-	-
Sonaecom Shares							
2000 Plan	6,265	31-Mar-01	31-Mar-04	-	-	-	-
2001 Plan	3,014	31-Mar-02	31-Mar-05	-	-	243	823.307
2002 Plan	1,694	31-Mar-03	31-Mar-06	-	-	226	1.345.895
2003 Plan	3,190	31-Mar-04	31-Mar-07	-	-	387	1.287.059
Sonae SGPS Shares							
2000 Plan	1,12	31-Mar-01	31-Mar-04	-	-	-	-
2001 Plan	0,92	31-Mar-02	31-Mar-05	-	-	11	219.847
2002 Plan	0,36	31-Mar-03	31-Mar-06	-	-	11	570.281
2003 Plan	0,93	31-Mar-04	31-Mar-07	-	-	12	255.444

* Average share price in the month prior to the award date, except for Sonae SGPS shares, priced on the award date.

Sonaecom signed agreements to cover the execution and hedging of its Deferred Performance Bonus Plan and related obligations. The agreement means that Sonaecom's liabilities are limited to a maximum of Euro 11,977,529. This value is reflected in the captions "Other non current liabilities" (Euro 9,794,878) (Note 23) and "Other current liabilities" (Euro 2,182,651) (Note 28), for long term and short-term obligations, respectively.

Sonaecom has entered into mirror agreements with its subsidiaries to pass on the corresponding liability to each subsidiary.

The costs of the Option and Share Plans are recognised in the accounts over the period between the award date and the vesting date of those shares and options. The costs recognised in previous years and in the year ended 31 December 2004, are as follows:

	<u>Values</u>
Costs recognised in prior years	3,119,092
Costs recognised in the year	3,942,611
Costs of plans vested during the year	(746,998)
Other non current and current assets (Deferred costs not yet recognised)	<u>5,662,824</u>
Other non current and current liabilities (Total cost of the Plans)	<u>11,977,529</u>

40. Others matters

(i) As of 31 December 2004, accounts receivable from customers and payable to suppliers include Euro 37,177,291 and Euro 29,913,608, respectively, and “Other current liabilities” and “Other current assets” include Euro 347,411 and Euro 6,856,200, respectively, resulting from a dispute between the subsidiary Optimus and the operator TMN – Telecomunicações Móveis Nacionais, S.A., in relation to interconnection tariffs, already recorded on the year ended 31 December 2001. The Company has considered the most penalising tariffs in the consolidated financial statements. At the time of this report, this dispute had already been examined by the Court, but no formal decision had yet been taken.

(ii) During 2000 legal proceedings were started against Maxistar – Comunicações Pessoais, S.A. (Maxistar) by Sonaecom and the other shareholders of Optimus, for breach of a clause of the Shareholders’ Agreement, claiming the right to exercise a purchase option on the shares of Optimus held by Maxistar, at 70% of their nominal value. Maxistar in turn has made a claim against Sonaecom and the remaining shareholders of Optimus for alleged breach of another clause of the Shareholders’ Agreement, also claiming the right to exercise the option to purchase the shares held in Optimus by these shareholders, for 70% of their nominal value. Sonaecom and the remaining shareholders consider that Maxistar’s counter claim is completely unfounded.

On 13 January 2003, the Arbitration Court to which the dispute between Sonaecom and the other shareholders of Optimus was referred decided against Maxistar, condemning it to pay an indemnity of Euro 2,344,350 plus legal interest from 13 January 1999 to the date of payment or, alternatively, to subject itself to a purchase option over its participation in Optimus at 70% of its actual value. The Management of Sonaecom has already informed Maxistar of its preference for the first alternative, having issued instructions for the respective shares to be held in guarantee of that payment.

Maxistar has appealed against the decision of the Arbitration Court, but taking into account the reduced chances of appeals of this nature, the management of Sonaecom does not expect the appeal it to be upheld.

As Maxistar did not comply with the decision by the Arbitration Court, Sonaecom and the other shareholders of Optimus have begun executive court procedures.

41. Commitments associated to “Information Society”

At the time Optimus was awarded its UMTS license, it committed to help promote the development of the information society with obligations limited to a maximum of Euro 275 million. Notwithstanding the substantial change in circumstances since these commitments were first made, Optimus has dedicated significant investments to the development of UMTS. To the best of its understanding and in the face of information available to it, at the time of this report, the Optimus’ Board of Directors believe that the company has no unrecorded outstanding liability associated with the aforementioned commitments.

42. Subsequent events

(i) At 25 January 2005, the Boards of Directors of the Companies Clixgest, Internet e Conteúdos, S.A. and Novis Telecom, S.A. approved a merger project by incorporation of Clix on Novis, which will be effective as from 1 January 2005.

(ii) On 28 January 2005, Sonaecom signed a contract with a Portuguese financial institution for the arrangement of a Euro 70 million Commercial Paper Program (“CPP”). The facility, although aimed at placement with institutional investors, is fully guaranteed by the financial institution responsible for arranging and managing the Programme. The contract signed will be effective for a, renewable, 5-year period and Sonaecom is able to draw funds under this Program, at its discretion and up to the agreed Euro 70 million limit, for periods of 7 to 360 days. The CPP facility will provide Sonaecom SGPS with a back-up credit facility to support its short-term funding needs and those of its subsidiaries that are unable to raise non-recourse funding at this stage.

43. Remuneration and other compensation attributed to the members of the Board of Directors of the parent company

The Fixed Remuneration and Performance Bonus attributed to the members of the Board of Directors of Sonaecom, by the companies included in the consolidation, during the years ended 31 December 2004 and 2003, calculated on an accruals basis, amounted to Euro 1,775,120 and Euro 1,442,199, respectively. In addition, members of the Board of Directors of Sonaecom are awarded deferred compensation under the Sonaecom Deferred Performance Bonus Plan, as described in the Note 39 above. The total amounts awarded to the Board of Directors of Sonaecom, using market values at the respective award dates, were Euro 533,991 in 2004 (awarded on 31 March 2004) and Euro 403,900 in 2003 (awarded on 31 March 2003). Full details on the participation of the Board of Directors in the Sonaecom Deferred Performance Bonus Plan are disclosed in the Consolidated Management Report, Section 3.6.3.

In the Notes to the 2003 Consolidated Accounts, the 2003 values were computed on a cash basis for Fixed Remuneration and on an accruals basis for both the Performance Bonus and the Deferred Performance Bonus Plan, which resulted in a total value of Euro 1,943,045.

44. Average number of employees

During the years ending 31 December 2004 and 2003 the companies included in the consolidation employed an average number of 2,438 and 2,573 employees, respectively.

These consolidated financial statements were approved and authorized for publication by the Board of Directors on 24 February 2005.

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004 AND 2003
(PORTUGUESE CHART OF ACCOUNTS FORMAT)
(Amounts expressed in Euro)

	December 2004		December 2003	
ASSETS	Assets	Depreciation and Provisions	Net Assets	Net Assets
FIXED ASSETS				
Intangible assets				
Research and development costs	638.200	270.594	367.606	-
Brands and patents	305.444.630	128.010.093	177.434.537	44.387.537
Work in progress	6.141.825	-	6.141.825	157.052.850
Goodwill	64.205.032	32.590.902	31.614.130	26.940.588
	376.429.687	160.871.589	215.558.098	228.380.975
Tangible assets				
Land & Buildings	172.900.865	71.011.417	101.889.448	100.660.961
Plant and machinery	617.944.093	303.963.767	313.980.326	304.131.114
Vehicles	130.289	109.914	20.375	94.548
Tools	1.203.681	1.140.982	62.699	116.147
Fixtures and fittings	119.741.012	62.977.644	56.763.368	56.898.499
Other tangible assets	2.820.556	1.886.136	934.420	1.045.707
Work in progress	9.157.745	-	9.157.745	27.884.034
	923.898.241	441.089.860	482.808.381	490.831.010
Financial investments				
Shares in subsidiaries	-	-	-	4.811.267
Shares in associated companies	685.669	-	685.669	673.685
Loans to associated companies	960.142	-	960.142	839.140
Other financial investments	6.254.872	2.709.793	3.545.079	1.323.328
Other loans	24.316	-	24.316	-
Advances for financial investments	-	-	-	1.500.000
	7.924.999	2.709.793	5.215.206	9.147.420
CURRENT ASSETS				
Inventories				
Raw materials	2.034.124	-	2.034.124	1.033.490
Goods for resale	15.359.185	4.565.764	10.793.421	7.245.213
	17.393.309	4.565.764	12.827.545	8.278.703
Debtors - medium and long term				
Other debtors	3.506.749	-	3.506.749	-
	3.506.749	-	3.506.749	-
Debtors - short term				
Trade debtors	152.651.617	-	152.651.617	144.971.752
Trade debtors - bills receivable	30.799	-	30.799	30.799
Doubtful debtors	67.229.825	67.229.825	-	-
Advances to trade creditors	813.236	-	813.236	2.671.846
State and other public entities	4.545.808	-	4.545.808	6.121.267
Other debtors	6.114.076	133.683	5.980.393	9.215.059
	231.385.361	67.363.508	164.021.853	163.010.723
Negotiable securities				
Treasury applications	45.182.317	-	45.182.317	138.873.676
Cash				
Cash at Bank	7.791.039	-	7.791.039	5.154.969
Cash in hand	291.776	-	291.776	137.607
	8.082.815	-	8.082.815	5.292.576
Accruals and deferrals				
Accrued income	40.503.113	-	40.503.113	50.049.217
Deferred costs and prepayments	12.196.681	-	12.196.681	30.204.603
Deferred tax assets	68.693.940	-	68.693.940	84.626.227
	121.393.734	-	121.393.734	164.880.047
Total depreciation		601.961.449		
Total provisions		74.639.065		
Total Assets	1.735.197.212	676.600.514	1.058.596.698	1.208.695.130

These financial statements are presented in accordance with the format required by the Portuguese Official Chart of Accounts ("POC"). However, the generally accepted accounting principles in Portugal were adjusted whenever considered that International Accounting Standards ("IAS/IFRS") allow for a more true and fair view of the financial position of the company and its subsidiaries. The Board of Directors believes that the financial statements prepared according to "IAS/IFRS" presents a more true and fair view of the financial position of the company and its subsidiaries. For this reason, the financial statements were prepared according to "IAS/IFRS".

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004 AND 2003
(PORTUGUESE CHART OF ACCOUNTS FORMAT)

(Amounts expressed in Euro)

SHAREHOLDERS' FUNDS AND LIABILITIES	December 2004	December 2003
SHAREHOLDERS' FUNDS		
Share capital	226.250.000	226.250.000
Share premium	335.819.541	335.819.541
Legal reserves	114.360	114.360
Other reserves	(323.577.431)	(304.400.138)
Consolidated net income/(loss) for the year	18.048.373	(19.170.834)
Total Shareholders' Funds	256.654.843	238.612.929
Minority interests	183.919.719	164.420.927
LIABILITIES		
Provisions for liabilities and charges		
Other provisions for liabilities and charges	4.292.249	3.741.092
Creditors - medium and long term		
Bank loans	305.138.566	420.458.200
Fixed asset creditors	5.775.528	43.355.899
Other loans	1.602.841	2.776.251
	312.516.935	466.590.350
Creditors - short term		
Bank loans and overdrafts	2.508.344	56.462.414
Trade creditors	115.421.318	112.867.909
Trade creditors - invoices pending approval	2.590.238	1.904.956
Trade creditors - bills payable	467.519	-
Fixed asset suppliers	38.641.160	26.196.455
Advances from customers	94.344	31.373
State and other public entities	11.049.202	10.402.623
Other creditors	6.469.322	7.197.309
	177.241.447	215.063.039
Accruals and deferrals		
Accrued costs	100.520.262	95.135.940
Deferred income	23.451.243	25.130.853
	123.971.505	120.266.793
Total Liabilities	618.022.136	805.661.274
 Total Shareholders' Funds, Minority Interests and Liabilities	 1.058.596.698	 1.208.695.130

These financial statements are presented in accordance with the format required by the Portuguese Official Chart of Accounts ("POC"). However, the generally accepted accounting principles in Portugal were adjusted whenever considered that International Accounting Standards ("IAS/IFRS") allow for a more true and fair view of the financial position of the company and its subsidiaries. The Board of Directors believes that the financial statements prepared according to "IAS/IFRS" presents a more true and fair view of the financial position of the company and its subsidiaries. For this reason, the financial statements were prepared according to "IAS/IFRS".

SONAECOM, S.G.P.S., S.A. AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT BY NATURE
FOR THE YEARS ENDED AT 31 DECEMBER 2004 AND 2003
(PORTUGUESE CHART OF ACCOUNTS FORMAT)
(Amounts expressed in Euro)

	December 2004		December 2003	
EXPENSES				
Cost of goods sold and materials consumed				
Goods for resale	102.231.265		106.324.993	
Raw materials	<u>4.205.249</u>	106.436.514	<u>4.864.580</u>	111.189.573
External supplies and services		454.292.910		457.510.181
Staff expenses				
Wages and salaries	77.759.114		72.432.146	
Social security and other expenses	<u>18.615.328</u>	96.374.442	<u>22.702.580</u>	95.134.726
Depreciation and amortisation	125.197.734		129.392.972	
Provisions	<u>15.851.501</u>	141.049.235	<u>20.879.234</u>	150.272.206
Taxes	11.753.891		11.779.108	
Other operating expenses	<u>1.803.763</u>	13.557.654	<u>2.822.552</u>	14.601.660
(a)		<u>811.710.755</u>		<u>828.708.346</u>
Losses from subsidiaries and associated companies	35.001		479.531	
Depreciation and provisions for financial investments	-		4.420.213	
Interest and similar expenses relating to subsidiaries and associated companies	-		-	
Others	<u>21.214.391</u>	21.249.392	<u>24.806.105</u>	29.705.849
(c)		<u>832.960.147</u>		<u>858.414.195</u>
Extraordinary expenses		-		-
(e)		<u>832.960.147</u>		<u>858.414.195</u>
Income taxation				
Current tax	1.390.043		1.923.630	
Deferred tax	<u>16.761.649</u>	18.151.692	<u>9.841.678</u>	11.765.308
(g)		<u>851.111.839</u>		<u>870.179.503</u>
Income/(loss) attributable to minority interests		20.783.827		(443.100)
Consolidated net income/(loss) for the period		18.048.373		(19.170.834)
Total Expenses		<u>889.944.039</u>		<u>850.565.569</u>
INCOME				
Sales :				
Goods for resale	70.843.744		70.720.203	
Products	<u>37.206.233</u>		<u>35.493.810</u>	
Services rendered	<u>772.109.042</u>	880.159.019	<u>731.528.331</u>	837.742.344
Supplementary income	2.822.705		5.991.947	
Subsidies	877.602		263.090	
Other operating income	<u>3.267.223</u>	6.967.530	<u>854.557</u>	7.109.594
(b)		<u>887.126.549</u>		<u>844.851.938</u>
Income from subsidiaries and associated companies	24.528		47.236	
Interest and similar expenses relating to subsidiaries and associated companies				
Related companies	1.165.945		2.248.402	
Others	<u>1.627.017</u>	2.817.490	<u>3.417.993</u>	5.713.631
(d)		<u>889.944.039</u>		<u>850.565.569</u>
Extraordinary income		-		-
(f)		<u>889.944.039</u>		<u>850.565.569</u>
Total Income		<u>889.944.039</u>		<u>850.565.569</u>
Net operating income/(loss): (b) - (a) =		<u>75.415.794</u>		<u>16.143.592</u>
Net financial income/(expenses): (d - b) - (c - a) =		<u>(18.431.902)</u>		<u>(23.992.218)</u>
Current income/(loss): (d) - (c) =		<u>56.983.892</u>		<u>(7.848.626)</u>
Net income/(loss) before taxation: (f) - (e) =		<u>56.983.892</u>		<u>(7.848.626)</u>
Consolidated net income/(loss) before minority interests: (f) - (g) =		<u>38.832.200</u>		<u>(19.613.934)</u>

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CERTIFICAÇÃO LEGAL DAS CONTAS E RELATÓRIO DE AUDITORIA CONTAS CONSOLIDADAS

Introdução

1. Nos termos da legislação aplicável, apresentamos a Certificação Legal das Contas e Relatório de Auditoria sobre a informação financeira consolidada contida no Relatório de Gestão e as demonstrações financeiras consolidadas anexas do exercício findo em 31 de Dezembro de 2004 da SONAE COM, S.G.P.S., S.A. e subsidiárias ("Empresa"), as quais compreendem o Balanço consolidado em 31 de Dezembro de 2004 que evidencia um total de 1.058.596.698 Euros e capitais próprios de 440.574.562 Euros, incluindo um resultado líquido de 18.048.373 Euros, as Demonstrações consolidadas dos resultados por naturezas e por funções, a Demonstração consolidada dos fluxos de caixa, a Demonstração consolidada das alterações no capital próprio do exercício findo naquela data e os correspondentes Anexos.

Responsabilidades

2. É da responsabilidade do Conselho de Administração da Empresa; (i) a preparação de demonstrações financeiras consolidadas que apresentem de forma verdadeira e apropriada a posição financeira do conjunto das empresas incluídas na consolidação, o resultado consolidado das suas operações e os seus fluxos consolidados de caixa; (ii) que a informação financeira histórica seja preparada de acordo com as Normas Internacionais de Relato Financeiro ("IAS/IFRS") emitidas pelo International Accounting Standards Board ("IASB") e que seja completa, verdadeira, actual, clara, objectiva e lícita, conforme exigido pelo Código dos Valores Mobiliários; (iii) a adopção de políticas e critérios contabilísticos adequados e a manutenção de sistemas de controlo interno apropriados; (iv) a informação de qualquer facto relevante que tenha influenciado a actividade do conjunto das empresas incluídas na consolidação, a sua posição financeira ou os seus resultados.
3. A nossa responsabilidade consiste em examinar a informação financeira contida nos documentos de prestação de contas acima referidos, incluindo a verificação se, para os aspectos materialmente relevantes, é completa, verdadeira, actual, clara, objectiva e lícita, conforme exigido pelo Código dos Valores Mobiliários, competindo-nos emitir um relatório profissional e independente baseado no nosso exame.

A expressão Deloitte refere-se a uma ou várias sociedades que operam ao abrigo de um acordo com a Deloitte Touche Tohmatsu, uma Swiss Verein, bem como as suas respectivas representadas e afiliadas. Deloitte Touche Tohmatsu é uma associação mundial de sociedades dedicadas à prestação de serviços profissionais de excelência, concentradas no serviço ao cliente sob uma estratégia global, aplicada localmente em, aproximadamente, 150 países. Como Swiss Verein (associação), nem a Deloitte Touche Tohmatsu nem qualquer das suas sociedades membro assumem qualquer responsabilidade isolada ou solidária pelos actos ou omissões de qualquer das outras sociedades membro. Cada uma das sociedades membro é uma entidade legal e separada que opera sob a marca "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu" ou outros nomes relacionados.

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Member of
Deloitte Touche Tohmatsu

Âmbito

4. O exame a que procedemos foi efectuado de acordo com as Normas Técnicas e as Directrizes de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas, as quais exigem que este seja planeado e executado com o objectivo de obter um grau de segurança aceitável sobre se as demonstrações financeiras consolidadas estão isentas de distorções materialmente relevantes. Este exame incluiu a verificação, numa base de amostragem, do suporte das quantias e informações divulgadas nas demonstrações financeiras e a avaliação das estimativas, baseadas em juízos e critérios definidos pelo Conselho de Administração, utilizadas na sua preparação. Este exame incluiu, igualmente, a verificação das operações de consolidação, a aplicação do método da equivalência patrimonial e de terem sido apropriadamente examinadas as demonstrações financeiras das empresas incluídas na consolidação, a apreciação sobre se são adequadas as políticas contabilísticas adoptadas, a sua aplicação uniforme e a sua divulgação, tendo em conta as circunstâncias, a verificação da aplicabilidade do princípio da continuidade das operações, a apreciação sobre se é adequada, em termos globais, a apresentação das demonstrações financeiras consolidadas, e a apreciação, para os aspectos materialmente relevantes, se a informação financeira é completa, verdadeira, actual, clara, objectiva e lícita. O nosso exame abrangeu ainda a verificação da concordância da informação financeira consolidada constante do Relatório de Gestão com os restantes documentos de prestação de contas consolidadas. Entendemos que o exame efectuado proporciona uma base aceitável para a expressão da nossa opinião.

Opinião

5. Em nossa opinião, as demonstrações financeiras consolidadas referidas no parágrafo 1 acima, apresentam de forma verdadeira e apropriada, em todos os aspectos materialmente relevantes, a posição financeira consolidada da SONAE COM, S.G.P.S., S.A. e subsidiárias em 31 de Dezembro de 2004, o resultado consolidado das suas operações e os seus fluxos consolidados de caixa no exercício findo naquela data, em conformidade com as Normas Internacionais de Relato Financeiro (IAS/IFRS), emitidas pelo International Accounting Standards Board ("IASB") e a informação nelas constante é, nos termos das definições incluídas nas directrizes mencionadas no parágrafo 4 acima, completa, verdadeira, actual, clara, objectiva e lícita.

Porto, 24 de Fevereiro de 2005


DELOITTE & ASSOCIADOS, SROC S.A.
Representada por Jorge Manuel Araújo de Beja Neves

RELATÓRIO E PARECER DO FISCAL ÚNICO
CONTAS CONSOLIDADAS

Aos Accionistas da
SONAECON, S.G.P.S., S.A.

Em conformidade com a legislação em vigor e com o mandato que nos foi conferido, vimos submeter à Vossa apreciação o nosso Relatório e Parecer que abrange a actividade por nós desenvolvida e os documentos de prestação de contas consolidadas da SONAECON, S.G.P.S., S.A. ("Empresa"), relativos ao exercício findo em 31 de Dezembro de 2004, os quais são da responsabilidade da Administração.

Acompanhámos, com a periodicidade e a extensão que consideramos adequada, a evolução da actividade da Empresa, bem como das principais empresas englobadas na consolidação, a regularidade dos seus registos contabilísticos e o cumprimento do normativo legal e estatutário em vigor tendo recebido do Conselho de Administração e dos diversos serviços da Empresa e das principais empresas englobadas na consolidação, as informações e os esclarecimentos solicitados.

No âmbito das nossas funções, examinámos o Balanço consolidado em 31 de Dezembro de 2004, as Demonstrações consolidadas dos resultados por naturezas e por funções, a Demonstração consolidada dos fluxos dos caixa, a Demonstração consolidada das alterações no capital próprio para o exercício findo naquela data e os correspondentes Anexos. Adicionalmente, procedemos a uma análise do Relatório Consolidado de Gestão do exercício de 2004 preparado pelo Conselho de Administração. Como consequência do trabalho de revisão legal efectuado, emitimos nesta data a Certificação Legal das Contas sobre as contas consolidadas, que não inclui reservas, bem como o Relatório Anual sobre a Fiscalização Efectuada.

Face ao exposto, somos de opinião que as demonstrações financeiras consolidadas supra referidas e o Relatório Consolidado de Gestão, estão de acordo com as disposições contabilísticas, legais e estatutárias aplicáveis, pelo que poderão ser aprovados em Assembleia Geral de Accionistas.

Desejamos ainda manifestar ao Conselho de Administração e aos serviços da Empresa e das empresas participadas, o nosso apreço pela colaboração prestada.

Porto, 24 de Fevereiro de 2005


DELOITTE & ASSOCIADOS, SROC S.A.
Representada por Jorge Manuel Araújo de Beja Neves

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Member of
Deloitte Touche Tohmatsu

SONAECON, SGPS, S.A.
(sociedade aberta)
Sede: Lugar do Espido, Via Norte, Maia
Pessoa Colectiva: 502 028 351
Capital Social. € 226.250.000
Matricula na CRC Maia n.º 45 466

I hereby certify, according to minutes number thirty-one that in the Shareholders General Meeting held on the fifth day of April of two thousand and five, the following proposals were unanimously approved:

- a) "It is proposed that the Individual Management Report and Accounts for 2004 are approved as presented."
- b) "We propose that the Consolidated Management Report and Accounts for 2004 are approved as presented."
- c) "As reported in the company's Management Report and Financial Statements for 2004, Sonaecom generated a net loss of three million, seven hundred and twenty five thousand, seven hundred and eighty one euros and seventy nine cents (€ 3.725.781,79). According to the law and the Articles of Association it is hereby proposed that such a result be transferred to retained earnings."
- d) "It is proposed a vote of recommendation and confidence for the excellent work performed by the Board of Directors and by the Statutory Auditor during 2004."
- e) "As a result of the resignation presented by the Statutory Auditor Substitute, and the vacancy of the Statutory Auditor, it is proposed to appoint through to the end of the current mandate (2004/2007:

Statutory Auditor: Deloitte & Associados, SROC, S.A., with registration at Odem dos Revisores Oficiais no. 43, with its registered office at Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 – 6.º, Lisboa, represented by Jorge Manuel Araújo de Beja Neves, with registration at Ordem dos Revisores Oficiais de Contas no. 746;

Statutory Auditor (substitute): António Marques Dias, married, with registration at Ordem dos Revisores Oficiais de Contas n.º 562, with residence at Edifício Atrium Saldanha, Praça Duque de Saldanha 1 – 6.º, Lisboa."

- f) "It is proposed to approve the resolution of amendment of number 1 of article 9 of the company's articles of association as following:

ARTICLE 9

Number one: The company is managed by a Board of Directors composed of three, five, seven, nine or eleven members, elected at the Shareholders' General Meeting. The Board of Directors will appoint its Chairman and a Managing Director (CEO), if this position exists.

It is also proposed to delegate in anyone of the Board Members the powers to execute all necessary steps concerning the amendment, including the powers to individually sign the deed or other necessary documents, as well as to grant this powers.”

g) “It is proposed to transfer seventy eight million six hundred and forty one thousand and five hundred seventy five euros and fifty eight cents from Share Premium and one million three hundred twenty nine thousand and one hundred thirty euros and sixty three cents from Other Reserves to Retained Earnings.”

The Chairman of the Board of the Shareholders General Meeting

Luzia Gomes Ferreira

Publication of Individual Accounts

In accordance with article 250, line 3, the Securities and Exchange Commission (CMVM), has authorized Sonaecom not to publish individual accounts.

The individual accounts are, however, available for consultation, as well as other company accounts, at the Company's head offices, in accordance with the Commercial Law Code (Código das Sociedades Comerciais).